86-145

No. _____

Supreme Court, U.S.
FILED
JUL 31 1986
JOSEPH F. SPANIOL, JR.
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

DURA CORPORATION and KIDDE, INC.,

Petitioners,

—VS.—

TWM MANUFACTURING COMPANY, INC., and
TURNER QUICK-LIFT CORPORATION,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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QUESTIONS PRESENTED

1. Where a patented item and an unpatented staple article of commerce are marketed together, whether it is proper to include in a damage award for infringement of the patent covering only the patented item, an award also based on the value of the unpatented staple article?

2. Whether the United States Court of Appeals for the Federal Circuit has so liberalized the standards for awarding punitive damages for patent infringement as to chill the incentive for those most able to challenge potentially invalid patents?

PARTIES TO PROCEEDINGS BELOW

The petitioners in this action (and the defendants-appellants below) are:

1. Dura Corporation
2. Kidde, Inc.

The respondents in this action (and the plaintiffs-appellees below) are:

1. TWM Manufacturing Company, Inc.
2. Turner Quick-Lift Corporation

TABLE OF CONTENTS

	PAGE
Opinions Below	2
Jurisdiction	3
Constitutional Provisions and Statutes Involved	3
Statement of the Case	3
Reasons for Granting the Writ	7
A. Introduction	7
B. Damages Should Not Be Awarded On Unpatented Staple Accessories Which Do Not Infringe The Patent And Are Easily Segregated From The Patented Invention	9
1. Introduction	9
2. The Federal Circuit's Application Of The Entire Market Value Rule Is Inconsistent With The Staple Goods Test Of *Dawson Chemical Co.* v. *Rohm & Haas Co.*	10
C. The Federal Circuit Has Improperly Liberalized The Award of Punitive Damages In Patent Cases	12
D. Conclusion	17
Appendix	
A. Opinion Below of the United States Court of Appeals for the Federal Circuit. 229 U.S.P.Q. 525 (Fed. Cir. 1986)	1a
B. Opinion of the United States District Court for the Eastern District of Michigan Dismissing The Complaint Based on Laches and Estoppel. 189 U.S.P.Q. 274 (E.D. Mich. 1975)	13a

PAGE

C. Opinion of the United States Court of Appeals for the Sixth Circuit Reversing the Dismissal of the Complaint for Laches and Estoppel. 592 F.2d 346 (6th Cir. 1979) 26a

D. Opinion of the United States District Court for the Eastern District of Michigan Finding the Patent-in-Suit To Be Valid and Infringed. 213 U.S.P.Q. 423 (E.D. Mich. 1981) 33a

E. Opinion of the United States Court of Appeals for the Sixth Circuit Affirming the Validity and Infringement Judgment. 722 F.2d 1261 (6th Cir. 1983) 44a

F. Report of the Special Master Awarding $31,288,496.00 in Damages for Patent Infringement. Unreported 64a

G. Transcript of the Oral Adoption of the Report of the Special Master by the United States District Court for the Eastern District of Michigan. Unreported 94a

H. Order by Court of Appeals for the Federal Circuit denying Petition for Rehearing 97a

TABLE OF AUTHORITIES

Cases PAGE

American Original Corp. v. *Jenkins Food Corp.*, 774 F.2d 459 (Fed. Cir. 1985) 13

Autographic Register Co. v. *Sturgis Register Co.*, 110 F.2d 883 (6th Cir. 1940) 12

Baumstimler v. *Rankin*, 677 F.2d 1061 (5th Cir. 1982) .. 14

B.B. Chemical Co. v. *Ellis*, 314 U.S. 495 (1942) 11

Carbice Corp. of America v. *American Patents Development Corp.*, 283 U.S. 27 (1931) 11

Central Soya Co. v. *Geo. A. Hormel & Co.*, 723 F.2d 1573 (Fed. Cir. 1983) 13, 16

Clark v. *Wooster*, 119 U.S. 322 (1886) 15

CPG Products Corp. v. *Pegasus Luggage, Inc.*, 776 F.2d 1007 (Fed. Cir. 1985).....13

Dawson Chemical Co. v. *Rohm & Haas Co.*, 448 U.S. 176 (1980).....10, 11

Deere & Co. v. *International Harvester Co.*, 658 F.2d 1137 (7th Cir. 1981) 14

Deere & Co. v. *International Harvester Co.*, 710 F.2d 1551 (Fed. Cir. 1983) 7, 9

Deyerle v. *Wright Mfg. Co.*, 496 F.2d 45 (6th Cir. 1974) 14

Dickey-John Corp. v. *International Tapetronics Corp.*, 710 F.2d 329 (7th Cir. 1983) 14

Eltra Corp. v. *Basic Inc.*, 599 F.2d 745 (6th Cir.), *cert. denied*, 444 U.S. 942 (1979) 14

Gaddis v. *Calgon Corp.*, 506 F.2d 880 (5th Cir. 1975) .. 14

General Motors Corp. v. *Devex Corp.*, 461 U.S. 648 (1983) 15

PAGE

Georgia-Pacific Corp. v. *United States Plywood Corp.*, 243 F.Supp. 500 (S.D.N.Y. 1965) 15, 16

Great Northern Corp. v. *Davis Core & Pad Co.*, 782 F.2d 159 (Fed. Cir. 1986) 13

Hammerquist v. *Clarke's Sheet Metal, Inc.*, 658 F.2d 1319 (9th Cir. 1981) 14

Henry v. *A.B. Dick Co.*, 224 U.S. 1 (1912) 10, 11

H.K. Porter Co. v. *Goodyear Tire & Rubber Co.*, 536 F.2d 1115 (6th Cir. 1976) 14

Hughes Tool Co. v. *Dresser Industries, Inc.*, unreported 7

King Instrument Corp. v. *Otari Corp.*, 767 F.2d 853 (Fed. Cir. 1985) 13

Kloster Speedsteel AB v. *Stora Kopparbergs Bergslags AB*, Nos. 85-2174, slip op. (Fed. Cir. 1986) 13

Kori Corp. v. *Wilco Marsh Buggies and Draglines, Inc.*, 761 F.2d 649 (Fed. Cir.), *cert. denied*, 106 S.Ct. 230 (1985) 8, 13

Lam, Inc. v. *Johns-Manville Corp.*, 718 F.2d 1056 (Fed. Cir. 1983) 13

Lam, Inc. v. *Johns-Manville Corp.*, 668 F.2d 462 (10th Cir.), *cert. denied*, 456 U.S. 1007 (1982) 14

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Leinoff v. *Louis Milona & Sons*, 726 F.2d 734 (Fed. Cir. 1984) 13

Leitch Mfg. Co. v. *Barber Co.*, 302 U.S. 458 (1938) ... 11

Maloney-Crawford Tank Corp. v. *Sauder Tank Co.*, 511 F.2d 10 (10th Cir. 1975) 14

Mercoid Corp. v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944) 11

PAGE

Mercoid Corp. v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) 11

Milgo Electronic Corp. v. *United Business Communications Inc.*, 623 F.2d 645 (10th Cir.), *cert. denied*, 449 U.S. 1066 (1980) 14

Morton Salt Co. v. *G.S. Suppiger Co.*, 314 U.S. 488 (1942) 11

Motion Picture Patents Co. v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917) 11

Norfin, Inc. v. *International Business Machines Corp.*, 625 F.2d 357 (10th Cir. 1980) 14

Novo Industri A/S v. *Travenol Laboratories, Inc.*, 677 F.2d 1202 (7th Cir. 1982) 14

Paper Converting Machine Co. v. *Magna-Graphics Corp.*, 680 F.2d 483 (7th Cir. 1982) 14

Paper Converting Machine Co. v. *Magna-Graphics Corp.*, 745 F.2d 11 (Fed. Cir. 1984) 8

Paper Converting Machine Co. v. *Magna-Graphics Corp.*, 785 F.2d 1013 (Fed Cir. 1986) 13

Power Lift, Inc. v. *Lang Tools, Inc.*, 774 F.2d 478 (Fed. Cir. 1985) 13

Radio Steel & Mfg. Co. v. *MTD Products, Inc.*, 788 F.2d 1554 (Fed. Cir. 1986) 13

Ralston Purina Co. v. *Far-Mar-Co., Inc.*, 772 F.2d 1570 (Fed. Cir. 1985) 13

Rosemount, Inc. v. *Beckman Instruments, Inc.*, 727 F.2d 1540 (Fed. Cir. 1984) 13

Saginaw Products Corp. v. *Eastern Airlines*, 615 F.2d 1136 (6th Cir. 1980) 14

PAGE

Saturn Mfg. Inc. v. *Williams Patent Crusher & Pulverizer Co.*, 713 F.2d 1347 (8th Cir. 1983) 14

S.C. Johnson & Son v. *Carter-Wallace, Inc.*, 781 F.2d 198 (Fed. Cir. 1986) 13

Seymour v. *McCormick*, 57 U.S. (16 How.) 480 (1854) 15

Shatterproof Glass Corp. v. *Libbey-Owens Ford Co.*, 758 F.2d 613 (Fed. Cir.), *cert. dismissed*, 106 S.Ct. 340 (1985) 13

Shiley, Inc. v. *Bentley Laboratories, Inc.*, Appeal No. 85-2226 (Fed. Cir. June 16, 1986)..... 7

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Square Liner 360°, Inc. v. *Chisum*, 691 F.2d 362 (8th Cir. 1982) 14

State Industries, Inc. v. *A.O. Smith Corp.*, 751 F.2d 1226 (Fed. Cir. 1985) 12, 13

Stickle v. *Heublein, Inc.*, 716 F.2d 1550 (Fed. Cir. 1983) 13

Topliff v. *Topliff*, 145 U.S. 156 (1892) 15

Trio Process Corp. v. *L. Goldstein's Sons*, 612 F.2d 1353 (3rd Cir.), *cert. denied*, 449 U.S. 827 (1980)..... 14

Underwater Devices Inc. v. *Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983) 13, 16

Velo-Bind, Inc. v. *Minnesota Mining & Mfg. Co.*, 647 F.2d 965 (9th Cir. 1981) 12

Wahl v. *Carrier Mfg Co.*, 511 F.2d 209 (7th Cir. 1975) 14

Western Electric Co. v. *Stewart-Warner Corp.*, 631 F.2d 333 (4th Cir. 1980) 14

PAGE

White v. *Mar-Bel, Inc.*, 509 F.2d 287 (5th Cir. 1975) ... 14

Wilden Pump & Engineering Co. v. *Pressed & Welded Products Co.*, 655 F.2d 984 (9th Cir. 1981) 14

Yarway Corp. v. *Eur-Control USA, Inc.*, 775 F.2d 268 (Fed. Cir. 1985) 13

Yoder Bros. Inc. v. *California-Florida Plant Corp.*, 537 F.2d 1347 (5th Cir. 1976), *cert. denied*, 429 U.S. 1094 (1977) 14

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Statutes

35 U.S.C. § 271(d) 3, 12, 15

35 U.S.C. § 284 11

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No. ____

DURA CORPORATION and KIDDE, INC.,

Petitioners,

—vs.—

TWM MANUFACTURING COMPANY, INC., and
TURNER QUICK-LIFT CORPORATION,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Petitioners, Dura Corporation and Kidde, Inc.[1] (hereinafter collectively referred to as "Dura"), respectfully pray that a Writ of Certiorari issue to review the judgment entered in favor of respondents, TWM Manufacturing Company, Inc. and Turner Quick-Lift Corp. (hereinafter collectively referred to as "TWM") by the United States Court of Appeals for the Federal Circuit in its causes numbered 85-2153, 85-2237 and 85-2273.

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1 Kidde, Inc. has interests in the following non-wholly owned subsidiaries: Fenwal Controls of Japan, Ltd.; Nippon SSP Co. Ltd.; Artesanias Baja, S.A.; Walter Kidde Sales & Service Co.; Walter Kidde S.A. Industria E. Comercio. Dura has no subsidiaries.

Opinions Below

The opinion of the United States Court of Appeals for the Federal Circuit is reported at 229 U.S.P.Q. 525 (Fed. Cir. 1986) and reprinted in the Appendix to this Petition at 1a. The following other opinions have been issued in this case and are reprinted in the Appendix to this Petition at the pages indicated:

Opinion of the United States District Court for the Eastern District of Michigan dismissing the complaint based on laches and estoppel. 189 U.S.P.Q. 274 (E.D. Mich. 1975), 13a.

Opinion of the United States Court of Appeals for the Sixth Circuit reversing the dismissal of the complaint for laches and estoppel. 592 F.2d 346 (6th Cir. 1979), 26a.

Opinion of the United States District Court for the Eastern District of Michigan finding the patent-in-suit to be valid and infringed. 213 U.S.P.Q. 423 (E.D. Mich. 1981), 33a.

Opinion of the United States Court of Appeals for the Sixth Circuit affirming the validity and infringement judgment. 722 F.2d 1261 (6th Cir. 1983), 44a.

Report of the Special Master awarding $31,288,496.00 in damages for patent infringement. Unreported, 64a.

Transcript of the oral adoption of the Report of the Special Master by the United States District Court for the Eastern District of Michigan. Unreported, 94a.

Denial of Petition for Rehearing by the Court of Appeals for the Federal Circuit. Unreported, 97a.

Jurisdiction

The judgment of the Court of Appeals for the Federal Circuit was entered on April 25, 1986, a timely petition for rehearing was filed on May 9, 1986 and denied on May 22, 1986 and this Petition for a Writ of Certiorari was filed within ninety (90) days of that denial. Jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

Constitutional Provisions and Statutes Involved

The case involves Section 284 of the Patent Act of 1952, 35 U.S.C. § 284 (1976), reprinted below.

§ 284. Damages

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use of the invention by the infringer, together with interest and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.
>
> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Statement of the Case

In this patent infringement case, original jurisdiction of which was premised on 28 U.S.C. § 1338(a), the Court of Appeals for the Federal Circuit affirmed a damage award of $31,288,496.00. Of the more than $31,000,000 awarded, only about $5,000,000 represents damages based on the sale of the

patented lift-axle suspension, the balance being made up of damages for the sale of unpatented parts, punitive damages and prejudgment interest. This petition will demonstrate that the Court of Appeals for the Federal Circuit has so liberalized the standards for determining damages in patent cases as to demand the intervention of this Court.

The patent involved in this case covers a device called a lift-axle suspension. It is a spring-like device used on large trucks which causes an extra axle and set of wheels to be lowered in contact with the road when the truck is carrying a heavy load and causes the extra axle and wheels to be raised from the road when the truck is empty and does not need the additional support. The extra axle and wheels are ordinary, staple articles of commerce in no way specially adapted for the patented suspension. In fact, the inventor testified that he obtained the first axles and wheels which were used with his invention from a junkyard.

When the patented suspension is marketed, the seller, often as a convenience to the customer and acting as a middleman, obtains the wheels and axle from an outside supplier and resells these unpatented staple wheels and axle to the customer together with the suspension.[2] In determining damages in this case, the Magistrate awarded TWM a royalty of thirty percent (30%) in certain years and TWM's actual lost profits in other years where it could prove that its lost profits were higher than the thirty percent (30%) royalty. In making both calculations, the Magistrate included in the royalty and profit base, the value of the unpatented wheels and axles sold with the patented suspension. There is undisputed evidence that, for each sale, the cost of the unpatented wheels and axle is approximately the same as the cost of the patented suspension. Thus, the inclusion of these unpatented parts in the damage calculation effectively doubled the damage award.[3] In short, TWM has

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2 About 10% to 20% of the time the suspension is sold without the wheels and axles.

3 This wrong was then compounded when the damages were trebled.

been awarded millions of dollars in damages because Dura sold the same staple wheels and axles with its suspension which the suspension's inventor originally obtained from a junkyard.

The Court of Appeals for the Federal Circuit justified the award of damages on these unpatented parts by relying on the "entire market value" rule. Quoting an earlier case of one of its predecessor courts, it stated:

> It is the " 'financial and marketing dependence on the patented item under standard marketing procedures' which determines whether the non-patented features of a machine should be included in calculating compensation for infringement." 229 U.S.P.Q. at 528 (citation omitted).

This case is the latest in a line of cases from the Court of Appeals for the Federal Circuit which has awarded damages for unpatented parts simply because the unpatented parts happen to be marketed with the patented device. Under the rationale of the Court of Appeals for the Federal Circuit, almost anything which happens to be marketed with a patented invention is "market dependent" on the patent and should be included in the damage calculation, regardless of whether those unpatented parts have any technological dependence on the patented invention. Such improper utilization of the entire market value rule is contrary to the rationale of many of this Court's decisions which restrict the extension of the patentee's economic leverage to unpatented staple articles of commerce and is one way in which the Court of Appeals for the Federal Circuit is unjustly increasing the damage awards for patent infringement.

A second liberalization undertaken by the Court of Appeals for the Federal Circuit is to considerably loosen the standards for the awarding of punitive damages. In this case, prior to the issuance of his patent, the patentee sent an unsolicited copy of a patent specification (without claims), under no obligation of secrecy, to Dura and a number of other manufacturers in an

attempt to interest them in marketing the lift-axle suspension described in the specification. More than one year later, Dura marketed a suspension which the District Court found to be similar to the suspension described in the patent specification. There was no proof that Dura had copied the patented suspension. In fact, Dura proved that it had purchased its suspension from an outside designer. TWM theorized that Dura had conspired with the outside designer to copy the patented suspension, but could offer no proof to support its theory.

To remedy TWM's failure of proof, the District Court applied a copyright theory of liability to find Dura to be a willful infringer. The District Court held that because Dura had access to the unsolicited patent specification and because its suspension was similar to the suspension described in the specification, that this "access plus similarity" equaled copying. The District Court equated this imputed "copying" with willful infringement and awarded TWM more than $17,000,000 in enhanced damages on that basis. There was no showing that Dura acted in bad faith and there was no showing of actual copying.

The Court of Appeals for the Federal Circuit affirmed the award, holding that since the "access plus similarity" finding was the law of the case, that was sufficient to uphold the award of treble damages, no further showing of bad faith being required. This is the latest example of the loose standards which the Court of Appeals for the Federal Circuit has been applying in upholding punitive damage awards against defendants in patent cases.

Reasons for Granting the Writ

A. Introduction

In an overreaction to the large number of patents held invalid before its creation, the Court of Appeals for the Federal Circuit has gone out of its way to put teeth back into the patent laws. This Court may take judicial notice of the fact

that various articles have appeared in the public press commenting on this propensity of the Federal Circuit. *See, e.g.* Perry, *The Surprising New Power of Patents*, Fortune, June 23, 1986 at 57:

> Since the Court of Appeals for the Federal Circuit was established in 1982 and was charged with handling all patent infringment appeals patents have more frequently been upheld, and the penalties imposed for infringing have become severe.

One of the prime methods used by the Federal Circuit to accomplish this purpose has been to send a message to the District Courts to award substantial damages against patent infringers. And the District Courts have been listening. Recently, the size of damage awards in patent cases have been greatly in excess of those which preceded the creation of the Federal Circuit. In addition to the instant case, witness the following examples:

> $28,462,664—*Deere & Co.* v. *International Harvester Co.*, 710 F.2d 1551 (Fed. Cir. 1983)
>
> $121,504,958—*Hughes Tool Co.* v. *Dresser Industries, Inc.*, unreported.
>
> $44,248,137—*Shiley, Inc.* v. *Bentley Laboratories, Inc.*, Appeal No. 85-2226 (Fed. Cir. June 16, 1986)
>
> $204,810,349—*Smith International, Inc.* v. *Hughes Tool Co.*, 229 U.S.P.Q. 81 (C.D. Cal. 1986)

These awards prompted the same *Fortune* commentator to note, "What is really giving management the willies is the trend in damages." *Ibid.*

The size of these awards is in part due to the fact that the Federal Circuit has liberalized the criteria for awarding patent damages in many areas. This petition presents two of those areas which have been particularly abused and which demand the intervention of this Court. If this Court does not intervene,

and the Federal Circuit continues inspiring and supporting these huge awards, then defendants will be intimidated with threats of large damage awards and the incentive for challenging suspect patents will be considerably chilled. A system where suspect patents go unchallenged is no better than a system where too many patents are invalidated.

It is respectfully submitted that this petition should be granted to indicate to the Federal Circuit and the district courts that it is imperative to maintain a proper balance within the patent system.

B. Damages Should Not Be Awarded On Unpatented Staple Accessories Which Do Not Infringe The Patent And Are Easily Segregated From The Patented Invention

1. Introduction

This case is the most recent in a line of cases where the Federal Circuit has affirmed the awarding of damages on unpatented parts. In *Kori Corp.* v. *Wilco Marsh Buggies and Draglines, Inc.*, 761 F.2d 649, 656 (Fed. Cir., *cert. denied*, 106 S. Ct. 230 (1985), the Federal Circuit, in awarding damages on the entire value of a marsh craft even though the patent only related to part of the craft, looked solely to financial and marketing criteria, stating:

> Under the "entire market value rule" it is the "financial and marketing dependence on the patented item under standard marketing procedures" which determines whether the non-patented features of a machine should be included in calculating compensation for infringement. (Citations omitted).

In *Paper Converting Machine Co.* v. *Magna-Graphics Corp.*, 745 F.2d 11, 22-23 (Fed. Cir. 1984), the Court affirmed an award of damages on an entire toilet paper rewinding line consisting of several discrete machines even though the patent related to only one portion of one machine and the other

machines which made up the line clearly had separate uses. Again, the Court applied a market dependence test, stating:

> None of the auxiliary units here are integrated parts of the [patented] rewinder; rather they each have separate usage. Paper Converting therefore obviously cannot prevent the manufacture or sale of these auxiliary units. This fact, however, does not control our decision. The deciding factor, rather, is whether "[n]ormally the patentee (or its licensee) can anticipate sale of such unpatented components as well as of the patented" ones.

Cf. Deere & Co. v. *International Harvester Co.*, 710 F.2d 1551, 1558-59 (Fed. Cir. 1983), where the entire market value rule was used as a justification to consider the value of sales of unpatented parts in arriving at a large royalty figure. Finally, in this case, the Court affirmed an award of damages based in part on the sale of unpatented wheels and axles.

The only justification proffered by the Court for these awards is whether the patentee usually would sell the unpatented parts with the patented device. If the patentee usually sells the patented and unpatented parts together, the Federal Circuit awards damages for the unpatented parts on the theory that it is the patent which is giving the unpatented parts their value.

By so applying the entire market value rule, the Federal Circuit has approved the anomalous result that damages for patent infringement are based upon non-patent marketing criteria. While the Federal Circuit admits that a patentee cannot prevent the manufacture or sale of unpatented parts,[4] and therefore a patentee cannot condition the sale of the patented device upon the purchase of the unpatented parts,[5] if customers, as a matter of convenience, buy the unpatented parts at the same time that they buy the patented device, the

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4 See quoted passage from *Paper Converting*, *supra*.

5 See discussion of patent-antitrust cases, *infra* at 10-12.

Federal Circuit deems the unpatented parts to be so related to the patent as to require the payment of damages for their sale and use. It is respectfully submitted that the "entire market value" rule, as applied by the Federal Circuit, is inconsistent with other rules of law concerning unpatented parts announced by this Court and other courts of appeal and should not be permitted to be used in this manner to unduly increase damage awards in patent cases.

2. The Federal Circuit's Application Of The Entire Market Value Rule Is Inconsistent With The Staple Goods Test Of *Dawson Chemical Co.* v. *Rohm & Haas Co.*

In *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176 (1980), this Court held that a patentee of a method patent for the application of an unpatented herbicide could prevent the use or sale of that herbicide by others only if the herbicide was a non-staple article of commerce having no substantial non-infringing use. Conversely, if the herbicide was a staple article of commerce having substantial non-infringing uses, then anyone was free to deal in the herbicide, even if it was eventually used by a customer in an infringing manner.

The result of the Federal Circuit's resort to a market dependence analysis in its application of the entire market value rule conflicts with the basic premise underlying *Dawson*. Under the Federal Circuit's analysis, the patentee is awarded damages on the sale of staple, unpatented parts, which under *Dawson* he cannot control, simply because, in the market, the patent helps the patentee to sell those unpatented parts. However, the theory that benefits to be realized from the sale of unpatented parts should inure to the patentee, merely because the patent helps to create the market for the unpatented parts, has been rejected by this Court in the *Dawson* patent-antitrust interface line of cases and it should be rejected in patent damage cases as well.

The market dependence analysis of the Federal Circuit is identical to the rationale used in *Henry* v. *A.B. Dick Co.*, 224

U.S. 1 (1912), to permit the patentee to control unpatented parts. In *A.B. Dick* the patentee of a printing machine was permitted to require purchasers of the machine to purchase unpatented staple items, such as ink and paper, from the patentee. The theory of the *A.B. Dick* Court, as explained by this Court in *Dawson* at 190 was:

> The [*A.B. Dick*] Court reasoned that the market for these supplies was created by the invention, and that sale of a license to use the patented product, like sale of other species of property, could be limited by whatever conditions the property owner wished to impose.

This reasoning of *A.B. Dick* was subsequently rejected by this Court in a long line of cases which defined the bounds of the patent-antitrust interface as it applied to unpatented goods. Thus, in cases like *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *Carbice Corp. of America* v. *American Patents Development Corp.*, 283 U.S. 27 (1931); *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458 (1938); *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488 (1942) and *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942), patent owners were forbidden from controlling the sale of unpatented staple parts or devices just because these parts or devices were used with a patented device. These cases reached their high-water mark in *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944), and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944), which forbade the patent owner from controlling an unpatented part even though that part was not a staple and had no use other than to be used in a manner to infringe the patent. In reaction to the *Mercoid* cases, Congress passed § 271(d) of the Patent Act of 1952, which, as this Court held in *Dawson*, was intended to permit the patentee some control over unpatented parts if those parts were non-staple articles of commerce having no substantial non-infringing use.

Thus, this Court has drawn the patent-antitrust interface line as to what unpatented parts the patentee can legitimately

control between staple and non-staple articles of commerce. The Federal Circuit's application of the entire market value rule erodes that line by allowing the patentee to collect damages for unpatented parts which are staple articles of commerce having many non-infringing uses. The staple, non-staple distinction should be applied to patent damage cases in the same manner as it is applied in patent-antitrust cases.

Indeed, other courts of appeal, in patent damage cases considered before the establishment of the Federal Circuit, have refused to award damages based on the use or sale of unpatented staple supplies. *See, e.g., Signode Corp.* v. *Weld-Loc Systems, Inc.*, 700 F.2d 1108, 1113-14 (7th Cir. 1983); *Velo-Bind, Inc.* v. *Minnesota Mining & Mfg. Co.*, 647 F.2d 965, 972-74 (9th Cir. 1981) and *Autographic Register Co.* v. *Sturgis Register Co.*, 110 F.2d 883 (6th Cir. 1940).

It is respectfully submitted that this Court should grant certiorari to consider whether the Federal Circuit's approval of damage awards for the use and sale of unpatented parts conflicts in principle with decisions of this Court and therefore has led to an improper increase in damages for patent infringement.

C. The Federal Circuit Has Improperly Liberalized The Award Of Punitive Damages In Patent Cases

The awarding of punitive damages in patent cases is governed by 35 U.S.C. § 284 which provides in part:

> " . . . the court may increase the damages up to three times the amount found or assessed."

In order to be entitled to punitive damages, the patentee must prove that the infringer acted in bad faith. As the Federal Circuit has stated in *State Industries, Inc.* v. *A.O. Smith Corp.*, 751 F.2d 1226, 1237 (Fed. Cir. 1985) quoting *Stickle* v. *Heublein, Inc.*, 716 F.2d 1550, 1565 (Fed. Cir. 1983):

> The Court must determine that the infringer acted in disregard of the patent, that is, that the infringer had no reasonable basis for believing it had a right to do the acts.

However, the Federal Circuit has only been paying lip service to its announced standard for the awarding of punitive damages. Since the formation of the Federal Circuit in October, 1982, to date, not including this case, it has had the question of whether to award punitive damages against an infringer before it twenty (20) times. In thirteen (13) cases where punitive damages were awarded below, the Federal Circuit has affirmed ten (10) times[6] and reversed only three (3) times.[7] In seven (7) cases where punitive damages were denied below, the Federal Circuit has reversed three (3) times[8] and sent the case back for consideration of punitive damages and has affirmed the denial four (4) times.[9] Thus, of twenty (20) punitive damage cases, the Federal Circuit has supported the awarding of punitive damages against infringers thirteen (13) times, or almost two-thirds (2/3) of the time.

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6 *Paper Converting Machine Co.* v. *Magna-Graphics Corp.*, 785 F.2d 1013 (Fed. Cir. 1986); *Great Northern Corp.* v. *Davis Core & Pad Co.*, 782 F.2d 159 (Fed. Cir. 1986); *Ralston Purina Co.* v. *Far-Mar-Co., Inc.*, 772 F.2d 1570 (Fed. Cir. 1985); *Power Lift, Inc.* v. *Lang Tools, Inc.*, 774 F.2d 478 (Fed. Cir. 1985); *Kori Corp.* v. *Wilco Marsh Buggies and Draglines, Inc.*, 761 F.2d 649 (Fed. Cir.), *cert. denied*, 106 S.Ct 230 (1985); *Rosemount, Inc.* v. *Beckman Instruments, Inc.*, 727 F.2d 1540 (Fed. Cir. 1984); *Leinoff* v. *Louis Milona & Sons*, 726 F.2d 734 (Fed. Cir. 1984); *Central Soya Co.* v. *Geo. A. Hormel & Co.*, 723 F.2d 1573 (Fed. Cir. 1983); *Lam, Inc.* v. *Johns-Manville Corp.*, 718 F.2d 1056 (Fed. Cir. 1973); *Underwater Devices Inc.* v. *Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed.Cir. 1983).

7 *Yarway Corp.* v. *Eur-Control USA, Inc.*, 775 F.2d 268 (Fed. Cir. 1985); *State Industries, Inc.* v. *A.O. Smith Corp.*, 751 F.2d 1226 (Fed. Cir. 1985); *Stickle* v. *Heublein, Inc.*, 716 F.2d 1550 (Fed. Cir. 1983).

8 *Kloster Speedsteel AB* v. *Stora Kopparbergs Bergslags AB*, Nos. 85-2174, slip. op. (Fed. Cir. 1986); *S.C. Johnson & Son* v. *Carter-Wallace, Inc.*, 781 F.2d 198 (Fed. Cir. 1986); *CPG Products Corp.* v. *Pegasus Luggage, Inc.*, 776 F.2d 1007 (Fed. Cir. 1985).

9 *Radio Steel & Mfg. Co.* v. *MTD Products, Inc.*, 788 F.2d 1554 (Fed. Cir. 1986); *American Original Corp.* v. *Jenkins Food Corp.*, 774 F.2d 459 (Fed. Cir. 1985); *King Instrument Corp.* v. *Otari Corp.*, 767 F.2d 853 (Fed. Cir. 1985); *Shatterproof Glass Corp.* v. *Libbey-Owens Ford Co.*, 758 F.2d 613 (Fed. Cir.), *cert. dismissed*, 106 S. Ct. 340 (1985).

On the other hand, in a ten (10) year period, prior to the formation of the Federal Circuit, *i.e.*, from October 1982 back to the beginning of 1972, the regional courts of appeal, which previously decided patent cases, had punitive damage questions presented twenty-three (23) times. In fifteen (15) cases where punitive damages were awarded below, the regional circuits affirmed nine (9) times[10] and reversed six (6) times.[11] In eight (8) cases where punitive damages were denied below, the regional courts of appeal reversed only once[12] and sent the case back for consideration of punitive damages and affirmed the denial seven (7) times.[13] Thus, of twenty-three (23) punitive damage cases, the regional courts of appeal supported the

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10 *Paper Converting Machine Co.* v. *Magna-Graphics Corp.*, 680 F.2d 483 (7th Cir. 1982); *Dickey-John Corp.* v. *International Tapetronics Corp.*, 710 F.2d 329 (7th Cir. 1983); *Novo Industri A/S* v. *Travenol Laboratories, Inc.*, 677 F.2d 1202 (7th Cir. 1982); *Lam, Inc.* v. *Johns-Manville Corp.*, 668 F.2d 462 (10th Cir.), *cert. denied*, 456 U.S. 1007 (1982); *Hammerquist* v. *Clarke's Sheet Metal, Inc.*, 658 F.2d 1319 (9th Cir. 1981); *Norfin, Inc.* v. *International Business Machines Corp.*, 625 F.2d 357 (10th Cir. 1980); *Milgo Electronic Corp.* v. *United Business Communications Inc.*, 623 F.2d 645 (10th Cir.), *cert. denied*, 449 U.S. 1066 (1980); *Trio Process Corp.* v. *L. Goldstein's Sons*, 612 F.2d 1353 (3rd Cir.), *cert. denied*, 449 U.S. 827 (1980); *Deyerle* v. *Wright Mfg. Co.*, 496 F.2d 45 (6th Cir. 1974).

11 *Baumstimler* v. *Rankin*, 677 F.2d 1061 (5th Cir. 1982); *Wilden Pump & Engineering Co.* v. *Pressed & Welded Products Co.*, 655 F.2d 984 (9th Cir. 1981); *Deere & Co.* v. *International Harvester Co.*, 658 F.2d 1137 (7th Cir. 1981); *Eltra Corp.* v. *Basic Inc.*, 599 F.2d 745 (6th Cir.), *cert. denied*, 444 U.S. 942 (1979); *Yoder Bros. Inc.* v. *California-Florida Plant Corp.*, 537 F.2d 1347 (5th Cir. 1976), *cert. denied*, 429 U.S. 1094 (1977); *Gaddis* v. *Calgon Corp.*, 506 F.2d 880 (5th Cir. 1975).

12 *Saturn Mfg. Inc.* v. *Williams Patent Crusher & Pulverizer Co.*, 713 F.2d 1347 (8th Cir. 1983).

13 *Square Liner 360°, Inc.* v. *Chisum*, 691 F.2d 362 (8th Cir. 1982); *Western Electric Co.* v. *Stewart-Warner Corp.*, 631 F.2d 333 (4th Cir. 1980); *Saginaw Products Corp.* v. *Eastern Airlines*, 615 F.2d 1136 (6th Cir. 1980); *H. K. Porter Co.* v. *Goodyear Tire & Rubber Co.*, 536 F.2d 1115 (6th Cir. 1976); *Maloney-Crawford Tank Corp.* v. *Sauder Tank Co.*, 511 F.2d 10 (10th Cir. 1975); *Wahl* v. *Carrier Mfg. Co.*, 511 F.2d 209 (7th Cir. 1975); *White* v. *Mar-Bel, Inc.*, 509 F.2d 287 (5th Cir. 1975).

awarding of punitive damages only ten (10) times, or less than one-half (1/2) the time.

Petitioner submits that the rise in punitive damage awards in patent cases is a result of the Federal Circuit's very liberal standards for judging the existence of willful infringement. While 35 U.S.C. § 284 provides authority for the Court to increase damages, it provides no guidelines as to the basis for such an increase. Thus, the grounds for awarding punitive damages in patent cases have been entirely judicially developed, centering on whether or not the infringement has been willful. This jurisprudence has developed for almost one hundred years with no guidance from this Court and with very little guidance prior to that time.[14] As a result of this lack of direction in the area of punitive damages, the Federal Circuit has had virtually a clean slate upon which to write. The fact that the Federal Circuit has had about the same number of punitive damage appeals in less than four (4) years as the regional courts of appeal had in the previous ten (10) years is evidence that the Federal Circuit has chosen to write upon its clean slate in a manner which treats patent infringement as a social evil rather than a business tort.

However, unlike most other torts, patent infringement has a certain salutary purpose. It is frequently the only method by which invalid patents can be challenged in the courts. This Court has held that there is a public interest in making sure that those with the greatest interest to challenge invalid patents are free to do so. *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670 (1969). Other courts have recognized that unfair roadblocks should not be placed in the path of the challenge of potentially invalid patents. As stated in *Georgia-Pacific Corp.* v. *United*

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14 See, *Topliff* v. *Topliff*, 145 U.S. 156 (1892); *Clark* v. *Wooster*, 119 U.S. 322 (1886); *Seymour* v. *McCormick*, 57 U.S. (16 How.) 480 (1854). While this Court considered 35 U.S.C. § 284 in *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648 (1983), on the question of prejudgment interest, it specifically noted at p. 651, n. 3, that the question of punitive damages was not presented in that case.

States Plywood Corp., 243 F.Supp. 500, 539 n.38 (S.D.N.Y. 1965):

> Thus, overemphasis of the deterrent function of damages could well lead to a stultification of the only expedient method of testing the validity of a patent.

The doctrine of punitive damages, as applied by the Federal Circuit, is just such a roadblock. If left unchecked, it will have a chilling effect on companies' efforts to design around valid patents as well as on companies' ability to mount challenges to invalid patents.

The Federal Circuit has held that to avoid punitive damages a party has an affirmative duty to obtain advice of counsel *before* undertaking any activities which might constitute infringement of a patent of which it has knowledge. *Underwater Devices, Inc.* v. *Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). Thus, if a party proceeds with the manufacture and sale of a product, either without advice of counsel or with advice obtained after being charged with infringement, it is very likely that the Federal Circuit will hold that party subject to treble damages notwithstanding that the validity and infringement issues were litigated in good faith. The Federal Circuit has also attempted to set standards for the quality of the legal advice rendered. *Id.*; *Central Soya Co.* v. *Geo. A. Hormel & Co.*, 723 F.2d 1573 (Fed. Cir. 1983) (Nichols concurring). Also, *see generally*, Ghloz, *Willful Infringement And "Magic Words"—The Effect Of Opinions Of Counsel On Awards Of Increased Damages And Attorney Fees*, 66 J.Pat.Off. Soc'y. 598 (1984).

The Federal Circuit has also enlarged the framework of activities which will be deemed to constitute willful infringement. Witness this case, where the finding of willful infringement is based solely on a circumstantial evidence theory borrowed from the copyright law.

There was no proof that Dura acted in bad faith. In fact, in denying TWM's application for attorneys fees, the District

Court specifically found that there was no bad faith to support such an award. Nevertheless, the District Court found, and the Federal Circuit affirmed, that the copyright theory of "access plus similarity" was sufficient to support the award of more than $17,000,000 in punitive damages. Neither court below explained why the same conduct of Dura which was insufficient to support the award of $300,000 in requested attorneys fees, was sufficient to support the award of more than $17,000,000 in punitive damages. It is the propensity of the Federal Circuit to punish patent infringers which permits such anomalies.

It is respectfully submitted that as a matter of policy, punitive damages in patent cases should be reserved for those situations where there is objective evidence of bad faith, and such damages should not be awarded based merely on circumstantial evidence or the timing of attorneys' opinions. When good faith defenses are raised as to the validity or infringement of a patent, and are fairly litigated, punitive damages should not be awarded. This Court should grant certiorari in order to clarify the standards for the awarding of punitive damages in patent cases.

Conclusion

For the reasons stated above, this Court should grant certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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APPENDIX

Opinion Below of the United States Court of Appeals for the Federal Circuit

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Appeal Nos. 85-2153, 85-2237 and 85-2273*

TWM MANUFACTURING CO., INC.,

Appellee/Cross-Appellants,

—v.—

DURA CORP. AND KIDDE, INC.,

Appellants/Cross-Appellees.

DECIDED: April 25, 1986

Before MARKEY, *Chief Judge*, NICHOLS, *Senior Circuit Judge*, and SMITH, *Circuit Judge*.

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* This court consolidated the appeals on May 20, 1985. In Appeal No. 85-2237, TWM challenged the district court's acceptance of papers on file as a formal Notice of Appeal. In Appeal No. 85-2273, Dura challenged the district court's refusal to accept a formal Notice of Appeal filed out of time. TWM moved to dismiss this appeal No. 85-2153 for untimely filing of a Notice of Appeal. This court denied that motion in an order dated August 13, 1985. The issues raised in Appeal Nos. 85-2237 and 85-2273 having been necessarily disposed of in the court's dismissal of that motion, Appeal Nos. 85-2237 and 85-2273 are dismissed as moot.

MARKEY, *Circuit Judge.*

Dura Corp. and Kidde, Inc. (Dura) appeal from a judgment of the United States District Court for the Eastern District of Michigan, adopting a report of a special master awarding TWM Manufacturing Co., Inc. (TWM) $31,288,496 in damages for patent infringement. We affirm.

Background

U.S. Patent No. 3,285,621 ('621 patent) issued on November 15, 1966 to Stephen Turner, Jr. The patented device is a "Wheeled Vehicle Suspension" enabling trucks to engage an additional axle and wheels to carry heavy loads. Turner assigned the patent to TWM on August 28, 1969.

On December 19, 1966, Turner charged Dura with infringing the '621 patent and tendered Dura a license. During negotiations, Dura said it believed the patent invalid. Negotiations ended on April 24, 1967. Dura did not hear from Turner again until his assignee, TWM, sued Dura on February 22, 1973.

Prior Proceedings

The district court granted Dura's motion for summary judgment, holding TWM's claim barred by laches and estoppel. 189 USPQ 274 (E.D. Mich. 1975). On appeal, the Sixth Circuit reversed and remanded, holding that a genuine issue of material fact existed on whether Dura had engaged in egregious conduct that might undermine its laches and estoppel defenses. 592 F.2d 346, 201 USPQ 433 (6th Cir. 1979). TWM had alleged that Dura "plagiarized" the claimed invention and harassed TWM by initiating or sponsoring third party litigation challenging the patent.

On remand, the district court found that: (1) Dura's behavior was so egregious as to defeat the laches defense; (2) the absence of affirmative misconduct by TWM defeated the estoppel defense; (3) Dura had willfully infringed, and (4) Dura's "copying" was not such bad faith as to warrant attorney fees. The court upheld the patent. 213 USPQ 423 (E.D. Mich. 1981).

The district court entered judgment: reserving decision on enhanced damages; granting an immediate injunction against infringement; and ordering an immediate accounting. The accounting, but not the injunction, was stayed pending Dura's appeal to the Sixth Circuit Court of Appeals. While that appeal was pending, the district court found Dura in criminal contempt of the injunction because it sold repair parts for its infringing suspensions. Dura appealed that finding to the Sixth Circuit Court of Appeals.

The Sixth Circuit Court of Appeals: affirmed the rejection of the laches and estoppel defenses and the upholding of the patent; held that Dura had violated the injunction, but was not guilty of criminal contempt; and remanded for determination of damages. 722 F.2d 1261, 221 USPQ 25 (6th Cir. 1983).

The special master held an evidentiary hearing on damages and rendered her report. The district court orally adopted that report *in toto* as not clearly erroneous. *See* Fed. R. Civ. P. 53(e)(2).

The Special Master's Report

The special master calculated compensatory damages as $8,511,596, the sum of: (1) a 30% royalty, and lost profits for the years proven ($6,465,714); (2) $100 for each sale made by TWM at prices forced lower by the infringement ($1,577,200); (3) special discounts by TWM on some sales to compete with Dura's pricing practices ($468,682); and (4) $100 for each sale by Dura in TWM's lost profit years, because TWM would have made those sales at a $100 higher price ($366,900). The special master trebled the damages and added prejudgment interest, arriving at the ultimate figure of $31,288,496.

In this appeal, Dura does not contest the award of interest, but contests each calculation of damages by the special master as "grossly excessive."

Issue

Whether the damages judgment appealed from rested on an abuse of discretion.

OPINION

Standard of Review

The methodology of assessing and computing damages under 35 U.S.C. § 284 is within the sound discretion of the district court. *Yarway Corp.* v. *Eur-Control USA, Inc.*, 775 F.2d 268, 275, 227 USPQ 352, 357 (Fed. Cir. 1985); *King Instrument Corp.* v. *Otari Corp.*, 767 F.2d 853, 863, 226 USPQ 402, 409 (Fed. Cir. 1985), *cert. denied*, 54 USLW 3556 (1986). Dura, as appellant, has the burden of convincing this court that the district court abused its discretion. *Seattle Box Co.* v. *Industrial Crating and Packing, Inc.*, 756 F.2d 1574, 1581, 225 USPQ 357, 363 (Fed. Cir. 1985); *Paper Converting Machine Co.* v. *Magna-Graphics Corp.*, 745 F.2d 11, 21, 223 USPQ 591, 598 (Fed. Cir. 1984). "Abuse of discretion may be established by showing that the district court either made an error of law, or a clear error of judgment, or made findings which were clearly erroneous." *Seattle Box Co.*, 756 F.2d at 1581, 225 USPQ at 363; *see also American Original Corp.* v. *Jenkins Food Corp.*, 774 F.2d 459, 462-64, 227 USPQ 229, 300-02 (Fed. Cir. 1985).

Reasonable Royalty

35 U.S.C. § 284 governs the award of damages for patent infringement. It provides:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> * * * *
>
> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

For the years TWM could not establish its lost profits, TWM and Dura agreed that the district court should determine a

reasonable royalty based on a "hypothetical royalty resulting from arm's length negotiations between a willing licensor and a willing licensee." *Hanson* v. *Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078, 219 USPQ 679, 682 (Fed. Cir. 1983); *see Tektronix, Inc.* v. *United States*, 552 F.2d 343, 348-49, 193 USPQ 385, 390-392 (Ct. Cl. 1977), *cert. denied*, 439 U. S. 1048 (1978); *Georgia-Pacific Corp.* v. *U. S. Plywood Corp.*, 318 F. Supp. 1116, 1120-22, 166 USPQ 235, 238-39 (S.D.N.Y. 1970), *modified*, 446 F.2d 295, 170 USPQ 369 (2d Cir.), *cert. denied*, 404 U.S. 870 (1971). The parties recognize that no established royalty exists in this case.

The special master, citing *Georgia-Pacific* and *Tektronix*, used the so-called "analytical approach", in which she subtracted the infringer's usual or acceptable net profit from its anticipated net profit realized from sales of infringing devices.

Relying principally on a memorandum written by "Dura's top management" before the initial infringement, the special master found that Dura projected a gross profit averaging 52.7% from its infringing sales. From that figure, she subtracted overhead expenses to get an anticipated net profit in the range of 37% to 42%. Subtracting the industry standard net profit of 6.56% to 12.5% from that anticipated net profit range, she arrived at a 30% reasonable royalty.

Dura says the special master erred as a matter of law in failing to analyze all factors delineated in *Georgia-Pacific*. Had she done so, says Dura, she would have found the "analytical approach" inapplicable. Unlike the situation in *Georgia-Pacific*, Dura argues, Turner had an unproven product he was desperate to license to a company like Dura with marketing and manufacturing expertise, and there was a market leader with an established non-infringing product. Dura contends that it was error for the special master to rely on Dura's estimate of future profit in a purely speculative memorandum. Having reevaluated the *Georgia-Pacific* factors, Dura strenuously argues that the 30% royalty was "exorbitant" and "totally at odds with the result indicated by the other factors."

Dura has cited nothing which would limit the district court's discretion in choosing the analytical approach to determine a

reasonable royalty. Section 284 does not mandate how the district court must compute that figure, only that the figure compensate for the infringement. *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 507, 141 USPQ 681, 694 (1964).

In arguing against the district court's application of the analytical approach, Dura deals mostly with events subsequent to its initial infringement. Although evidence of actual profits is generally admissable, *Trans-World Manufacturing Corp.* v. *Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1568, 224 USPQ 259, 269 (Fed. Cir. 1984), the district court here correctly focused on the date when the infringement began. *Hanson*, 718 F.2d at 1079, 219 USPQ at 682; *Panduit Corp.* v. *Stahlin Bros. Fibre Works, Inc.*, 575 F. 2d 1152, 1158, 197 USPQ 726, 731 (6th Cir. 1978).

On appeal, an infringer cannot successfully argue that the district court abused its discretion in awarding a "high" royalty by simply substituting its own recomputation to arrive at a lower figure. *See Paper Converting Machine Co.*, 745 F.2d at 21, 223 USPQ at 598-99. That argument does not show error, but merely indicates the damages an infringer-appellant would prefer to pay. That the district court might have viewed the infringer's evidence more favorably is not a basis for reversal. *See American Original Corp.*, 774 F.2d at 462-64, 227 USPQ at 300-02.

Whether Dura's computation was more accurate than that proffered by TWM's experts was for the special master to decide. Dura's pointing to facts that might have supported a lower royalty does not sustain its burden of showing that the district court abused its discretion in adopting the facts found by the special master. Nor does it establish that the master's findings were clearly erroneous. Dura's oversimplified argument that the special master considered only one *Georgia-Pacific* factor will not withstand analysis in light of the master's extensive report.

The special master gave weight to the testimony of TWM's witnesses, who said their computations were derived from the factors in *Georgia-Pacific*. On the other hand, Dura offered no

testimony from any of its present or former employees who were familiar with Dura or TWM. Dura has given no basis for this court to take the highly unusual step of rejecting credibility determinations of the special master.

Moreover, Dura disregards the effect of the special master's specific rejection of many of the "facts" Dura urges on appeal. For example, Dura insists that there existed non-infringing alternatives. However, the special master found that the *absence* of such alternatives was indicated by Dura's: (1) failure to design its own device, despite the alleged availability of other suspensions now characterized by Dura as "acceptable"; (2) election to infringe, despite having expended only minimal sums when notified of infringement; (3) willful infringement; (4) failure to successfully market other allegedly "acceptable" designs; (5) violation of the 1981 injunction, and (6) withdrawal from the business after enforcement of the injunction.

The special master's notation that the Turner invention's immediate commercial success, its satisfaction of a long-felt need, and the absence of a competing suspension possessing all its beneficial characteristics, were factors tending to support a 30% royalty, is supported in the record.

The special master properly rejected Dura's effort to downplay the significance of its pre-infringement internal memorandum, because it was more probative than profits realized shortly after the infringement, because Dura's loss of its documents precluded TWM from showing lost profits, and because Dura used the figures in the memorandum in deciding whether to manufacture and market the infringing device.

On appeal, this court may not exercise *de novo* review over the special master's finding on Dura's anticipated profit. That rule is unaffected by the basis for that finding, i.e., by whether it is based on testimony or on physical or documentary evidence. *Anderson* v. *City of Bessemer, N.C.*, ____ U.S. ____, 105 S.Ct. 1504, 1512 (1985). The special master thoroughly considered and weighed the Dura memorandum, and this court may not reweigh it. "Determining the weight and credibility of the evidence is the special province of the trier of fact."

Inwood Laboratories, Inc. v. *Ives Laboratories, Inc.*, 456 U.S. 844, 856, 214 USPQ 1, 7 (1982).

The special master properly resolved difficulty in determining the royalty figure against Dura as an infringer which had lost its records. *Gyromat Corp.* v. *Champion Spark Plug Co.*, 735 F.2d 549, 554-55, 222 USPQ 4, 8 (Fed. Cir. 1984). She recognized that "any adverse consequences must rest on the infringer when the inability to ascertain lost profits is due to the infringer's own failure to keep accurate or complete records." *Lam, Inc.* v. *Johns-Manville Corp.*, 718 F.2d 1056, 1065, 219 USPQ 670, 675 (Fed. Cir. 1983).

Dura has not persuaded this court that a 30% royalty does not reflect what a willing licensor and licensee would have agreed to in 1967, based on the present record. That Turner might have agreed to a lesser royalty is of little relevance, for to look only at the question would be to pretend that the infringement never happened. "It would also make an election to infringe a handy means for competitors to impose a 'compulsory license' policy upon every patent owner." *Panduit Corp.*, 575 F.2d at 1158, 197 USPQ at 731. The willing licensee/licensor approach must be flexibly applied as a "device in the aid of justice." *Cincinnati Car Co.* v. *New York Rapid Transit Corp.*, 66 F.2d 592, 595, 19 USPQ 40, 43 (2d Cir. 1933).

Entire Market Value Rule

Dura argues that the special master erroneously included unpatented wheels and axles in the royalty base and in the lost profits award. Dura contests the applicability of the "entire market value" rule here because TWM did not manufacture the unpatented parts, but merely provided them as a "convenience to its customers."

We reject Dura's argument that the inclusion of unpatented items in the royalty base or lost profits determination is dependent on who manufactures those items, or on whether they are supplied for "convenience".

The entire market value rule allows for the recovery of damages based on the value of an entire apparatus containing

several features, when the feature patented constitutes the basis for customer demand. *See, e.g., King Instrument Corp.* v. *Otari Corp.*, 767 F.2d 853, 865, 226 USPQ 402, 410-11 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 1197 (1986); *Paper Converting Machine Co.*, 745 F.2d at 22, 223 USPQ at 599 (Fed. Cir. 1984). It is the " 'financial and marketing dependence on the patented item under standard marketing procedures' which determines whether the non-patented features of a machine should be included in calculating compensation for infringement." *Kori Corp.* v. *Wilco Marsh Buggies and Draglines, Inc.*, 761 F.2d 649, 656, 225 USPQ 985, 989 (Fed. Cir.), *cert. denied*, 106 S. Ct. 230 (1985) (quoting *Leesona Corp.* v. *United States*, 599 F.2d 958, 974, 202 USPQ 424, 439 (Ct. Cl.), *cert. denied*, 444 U.S. 991 (1979)). In establishing lost profits, "[t]he deciding factor . . . is whether '[n]ormally the patentee (or its licensee) can anticipate sale of such unpatented components as well as of the patented' ones." *Paper Converting Machine Co.*, 745 F.2d at 23, 223 USPQ at 599 (quoting *Tektronix*, 552 F.2d at 351, 193 USPQ at 393).

Where a hypothetical licensee would have anticipated an increase in sales of collateral unpatented items because of the patented device, the patentee should be compensated accordingly. *Cf. Trans-World Manufacturing Co.*, 750 F.2d at 1568, 224 USPQ at 269-70 (increased sales of unpatented items may be relevant in determining reasonable royalty). That correlation was shown to exist in this case. Because Dura did not show how many, if any, of the patented devices were sold alone without wheels and axles, the special master could not have apportioned the infringing sales if such apportioning had been appropriate. The special master correctly included unpatented items in the royalty base.

Having shown each of the elements for lost profits, TWM established that in all reasonable probability it would have made the sales that Dura made. The special master therefore correctly included the unpatented wheels and axles in her lost profits determination.

Lost Profits

Dura says TWM should get no lost profits because it did not establish absence of acceptable non-infringing substitutes, which, says Dura, need not possess all the beneficial characteristics of the patented device. Alternatively, Dura says the concession of a TWM witness (that competition existed in 30% of the market) means there must have been non-infringing substitutes in at least that portion of the market.

Dura's arguments are without merit. As above indicated, the special master found many facts clearly establishing absence of acceptable substitutes. Dura has failed to show that any of the many findings on which the magistrate's non-substitutes determination was based was clearly erroneous.

Mere existence of a competing device does not make that device an acceptable substitute. The special master committed no error in noting that none of the alleged substitutes had all beneficial characteristics of the patented device. *See Central Soya Co.* v. *Geo. A. Hormel & Co.*, 723 F.2d 1573, 1579, 220 USPQ 490, 494 (Fed. Cir. 1983). That finding supported the determination that there were no acceptable substitutes. "A product lacking the advantages of that patented can hardly be termed a substitute 'acceptable' to the customer who wants those advantages." *Panduit Corp.*, 575 F.2d at 1162, 197 USPQ at 734. Moreover, Dura ignored those substitutes while it sold the patented invention and thus its acceptable substitute argument "must be viewed of limited influence." *Id.* at 1162 n.9, 197 USPQ at 734 n.9.

Dura has shown no error in the special master's determination that TWM is entitled to lost profits for the years its lost profits exceeded its reasonable royalty.

Diminished Sales Prices and Special Discounts

Dura argues that the special master should not have awarded TWM $100 for each TWM sale and Dura sale in the lost profit years 1976-1979 because that award was based on testimony which is "totally fallacious and contrary to other evidence in the case." Dura argues that nothing in the record supports the

finding that TWM could have sold its patented product for $100 more had Dura not infringed.

The special master credited the testimony of TWM's witnesses, Messrs. Wilkof and Van Denberg, who testified that Dura's infringement caused TWM to keep its prices down $100 on the average. Dura presented no rebuttal witnesses to that testimony. When no contrary evidence exists in the record, bald assertions that the testimony is self serving and defies common sense cannot form a "basis on which this court could engage in the normally inappropriate process of substituting a contrary credibility determination for that of the district court." *Windsurfing International, Inc.* v. *AMF Inc.*, 782 F.2d 995, 999, 228 USPQ 562, 565 (Fed. Cir. 1986).

In addition to the $100 price reduction, substantial evidence supports the special master's finding that TWM had to give special discounts to compete with Dura's pricing practices. Dura's argument that there was no correlation between the special discounts and its infringing activity is contrary to the record and must be rejected.

In determining an award "adequate to compensate", 35 USC § 284, there must be room to take into account the totality of the circumstances. The sale price and discount elements employed here may be unusual. Their employment under the circumstances of this case, however, did not constitute an abuse of discretion.

Because Dura has shown no evidence contradicting the special master's findings concerning the $100 on each TWM sale, $100 on each Dura sale, and TWM's special discounts, those awards must be affirmed.

Enhanced Damages

Dura concedes that the district court's finding of willfull infringement is the law of the case. Dura contends, however, that absence of a finding of its "bad faith" precludes an award of enchanced damages for the willful infringement.

This court reviews an award of enhanced damages under an abuse of discretion standard, *See, e.g., Rosemont, Inc.* v.

Beckman Instruments, Inc., 727 F.2d 1540, 1547-48, 221 USPQ 1, 8-9 (Fed. Cir. 1984), and has repreatedly affirmed enhanced awards based on findings of willfull infringement. See cases cited in *S.C. Johnson & Son, Inc.* v. *Carter-Wallace, Inc.*, 781 F.2d 198, 200, 228 USPQ 367, 368 (Fed. Cir. 1986). Dura cites no law requiring a finding of "bad faith" before awarding increased damages for willful infringement. Nor has Dura shown an abuse of discretion in the district court's response to Dura's "bad faith" arguments after the remand. The treble damage award must be affirmed.

Conclusion

The judgment appealed from is affirmed in all respects.

AFFIRMED

Opinion of the United States District Court for the Eastern District of Michigan Dismissing the Complaint Because of Laches and Estoppel

DISTRICT COURT
E. D. MICHIGAN, S. DIV.

No. 4-72852

Decided December 3, 1975

TWM MANUFACTURING COMPANY, INC., et al.

—v.—

DURA CORPORATION

KAESS, *Chief Judge*,

This matter comes before the Court on the motion of the defendant, Dura Corporation (Dura), for summary judgment dismissing plaintiffs' complaint for infringement of Turner U.S. Patent 3,285,621, on the basis of laches and estoppel. Defendant contends that plaintiffs' unreasonable and inexcusable delay in commencing suit after notice of infringement had been given resulted in prejudice to the defendant and that under the equitable doctrines indicated above, recovery should be barred.

As in any motion of this type, the underlying facts and circumstances are extremely important to any analysis and determination of the issues presented. The Court has earlier, in an opinion and order denying defendant's motion for summary judgment, described the physical characteristics and functions of the Turner Patent. That process need not be repeated for purposes of the current motion. However, a brief chronology of relevant dates with respect to the relations between the parties is necessary and is as follows:

DATE	EVENT
January 12, 1965	Turner patent application, Serial No. 424,933 filed in the U.S. Patent Office by Williams and Kreske, attorneys for Turner.
March 12, 1965	Copy of the Turner patent application sent by Turner attorney Michael Williams to Dura Corporation.
November 15, 1966	Turner patent issued as No. 3,285,621.
December 5, 1966	Dura Corporation advertises for sale in "Transport Topics" the 1400 series suspension, the accused device in this action.
December 19, 1966	Turner attorney Kreske writes to Dura Corporation under certified No. 900474 notifying Dura that "sale or use of such device appears to come within the scope of patent 3,285,621."
January 9, 1967	Soft copy of the Turner patent received by Dura Corporation, and notice of infringement acknowledged by attorney M.K. Murphy, patent counsel for Dura Corporation.
January 25, 1967	The late Max Murphy, attorney writes memorandum to Dura Management recommending accumulation of a reserve against possible liability in connection with the Turner and Kulyk patents.
February 21, 1967	Turner attorney Kreske reminds the late Max Murphy that no further response has been received.
March 3, 1967	The late Max Murphy acknowledges February 21 letter from Attorney Kreske.
March 16, 1967	The late Max Murphy advised Attorney Kreske that the Turner patent appears to be invalid.
March 31, 1967	The late Max Murphy writes to Dura Management that if Turner's attorney does not reply within 60 to 90 days, then Dura should reconsider the matter "with a view to eliminating the royalty reserve."
March 31, 1967	Turner's Attorney Kreske writes to the late Max Murphy and disagrees with the effect of the prior uses referred to by Murphy. Kreske states:

DATE	EVENT
	"It may be that I misinterpret prior use to which you refer and if so, I can correct it. In any event, your comments are awaited since my client *is pressing me to dispose of this matter*." (Emphasis added)
April 5, 1967	The late Max Murphy writes to Attorney Kreske reaffirming his opinion of invalidity.
April 24, 1967	Turner Attorney Kreske has final contact with the late Max Murphy by telephone.
1968	Dura Attorney Max Murphy dies.
May 6, 1970	An action styled *Giurato v. Turner* is filed by Anthony Giurato in Mahoning County Court of Common Pleas, No. 190635, alleging that Stephen Turner, Jr., was not the first and original inventor of the subject matter claimed in the Turner U.S. patent 3,285,621, but rather Turner had derived the idea from Giurato.
January 6, 1972	*Giurato v. Turner* suit settled by mutual release and agreed judgment and payment of $7,500 from Turner to Giurato.
February 22, 1973	TWM Manufacturing Company files complaint in the present action in the Eastern District of Kentucky.

Plaintiff does not dispute the dates or the references made to contacts between the plaintiff and the defendant. Rather, as will be discussed infra, plaintiff disputes the relevance of the dates and the interpretations given to certain documents as they relate to laches and estoppel.

The doctrine of laches, perhaps peculiar to patent litigation, has been defined succinctly in a recent decision of the Sixth Circuit Court of Appeals. As the Court noted in American Home Products Corp. v. Lockwood Mfg. Co., 483 F.2d 1120, 1122, 179 USPQ 196, 197 (6th Cir.), cert. denied 414 U.S. 1158, 180 USPQ 417 (1974):

> "Generally, laches requires that there be, in the light of all the existing circumstances, an unreasonable delay resulting in prejudice to the other party. Sobosle v. United States Steel Corp., 359 F.2d 7, 12 (3rd Cir. 1966)."

See also Siemens Aktiengesellschaft v. Beltone Electronics Corp., 381 F.Supp. 57, 60, 184 USPQ 433, 435 (1974).

The examination of laches in the instant case must then be a bifuracted one. Being continually cognizant of the surrounding circumstances, the Court must first determine whether or not there was an unreasonable delay, and if so, whether the delay resulted in prejudice to the defendant. Answering each in the affirmative, the Court must then examine the situation as it relates to the defense of estoppel.

Delay

A review of the above chronicled events indicates that the patent of the plaintiffs issued November 15, 1966. Shortly thereafter, on December 5, 1966, an advertisement for the alleged infringing device appeared in an edition of "Transport Topics." Approximately two weeks later, counsel for Turner advised Dura, with reference to the advertisement, that:

> "* * * the manufacture, sale, or use of such device appears to come within the scope of patent 3,285,621. On behalf of the owner of this patent, I have been instructed to advise that consideration will be given to all reasonable offers to purchase this patent or to a license thereunder."

Defendent refers to this communication as a formal notice of infringement, while plaintiff contends that it is no more than an offer to purchase or license. In support of its contention, plaintiff submits two other correspondences with other infringers, which it asserts are notices of infringement.[1] A review

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1 1 February 1967

CC: Turner
A & A Welding
Mingo Junction
Ohio 43938

Gentlemen:

It has come to the attention of my client that you may be interested in the manufacture and/or sale of auxiliary, lift axle suspensions of the type covered in United States Patnt No. 3,285,621.

of these two letters, as well as an analysis of the letter sent to Dura, satisfies this Court that the letter of December 19, 1966, is indeed a notice of infringement. That communication not only solicits a purchase or possible licensing under the patent but also asserts that the product manufactured by the defendant infringes on the patent of Turner. Subsequent communications disclose that Dura ultimately rejected the validity of the Turner Patent and, on that basis, advised counsel for Turner that they "would not be interested in purchasing this patent or taking a license under it." This decision was made despite the

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Against the possibility that the foregoing is correct, I enclose a print of the patent and advise that the owner of such patent will give consideration to a license arrangement permitting manufacture and sale of such suspensions.

Your early reply will be appreciated.

Very truly yours

Gerald H. Kreske

GHK/el
Encl
Certified Mail
No. 900414 - RRR

1 February 1967

CC: Turner
Burnham Trailer Service
Hanoverton, Ohio 44423

Gentlemen:

I am advised that your company is installing auxiliary, lift axle suspensions that fall within the scope of United States Letters Patent 3,285,621, print of which is enclosed.

The owner of this patent intends to enforce his right to prevent unauthorized manufacture, use, or sale, of devices falling within the scope thereof.

If you wish to continue installation of these auxiliary axle suspensions, consideration will be given to a license arrangement permitting manufacture and sale of such suspensions.

Your early reply is solicited.

Very truly yours

Gerald H. Kreske

GHK/encl
Certified Mail
No. 900413 - RRR

fact that Dura had been informed by counsel for Turner that "my client is pressing me to dispose of this matter." Communications between the two apparently terminated sometime in April, 1967.

Thus, there is a period of approximately six years and two months between the initial notice of infringement to Dura and the commencement of this lawsuit on February 22, 1973. The interval between the break-off of negotiations and the lawsuit is approximately five years and ten months. The Court is aware of no precedent which declares at what point a delay becomes an unreasonable one. Rather, it appears that each situation must be evaluated individually on the facts and circumstances as they exist. Siemens, supra, at 60, 184 USPQ at 435; Baker Manufacturing Co. v. Whitewater Manufacturing Co., 430 F.2d 1008, 1011, 166 USPQ 463, 464-465 (7th cir. 1970), quoting, Westco-Chippewa Pump Co. v. Delaware Electric & Supply Co., 64 F.2d 185, 187, 17 USPQ 145, 147 (3d Cir. 1933); American Home Products Corp. v. Lockwood Mfg. Co., 173 USPQ 486, 497 (S.D. Ohio 1972).

In defense of the delay in this case, plaintiff offers two situations which can generally be described as falling under the heading of "other litigation." The first relates to attempts by the patentee to enforce the patent against two alleged infringers who were producing locally. Reference has previously been made to letters sent to these parties. Negotiations lasted into 1967 and were settled prior to Court action. the second defense deals with litigation attacking the sole inventorship by Turner of the patent in question. This suit was initiated by one Anthony Giurato in Common Pleas Court in Ohio in May, 1970, and resolved December 21, 1971, by a settlement with the plaintiff. The judgment, entered and docketed on January 6, 1972, held that Turner was the sole inventor of U.S. Patent 3,285,621.

The Court in American Home Products, supra, had occasion to deal at some length with the defense of "other litigation." There, the Court noted:

> "Ekco, however relies upon the generally accepted principle that delay in suing an infringer is not legal delay in a

laches sense when the party asserting the patent is engaged in other litigation against other infringers. U.S. Mitis Co. v. Detroit Steel & Spring Co., 122 F. 863, 866 (6th Cir. 1903); Jenn-Air Corp. v. Penn Ventilator Co., 464 F.2d 48, 50, 174 USPQ 419, 420-421 (3rd Cir. 1972). This exception takes into account the fact that patent litigation is often unusually complex, lengthy and expensive. It is an equitable doctrine, and must be considered as one factor which would, in appropriate circumstances, negate a defense of laches. Therefore, we must assess the various factors which might tend to negate a claim of unreasonable delay and must consider all of the factors which contributed to this admittedly unique situation.

* * *

"Although the 'other litigation' exception does permit a patent owner to sue multiple infringers consecutively, we are unable to find any authority for the proposition that the existence of 'other litigation' is a complete bar to the assertion of a laches defense. Although multiple litigation need not be maintained against multiple infringers, we see no reason why a patent owner need not at least assert to the other infringers its intention to bring a subsequent action at the termination of the presently pending action." American Home Products, 483 F.2d 1120, at 1122-1123, 179 USPQ at 197-198.

Thus, in this Circuit at least, other litigation is only one of many factors to be considered.

For several reasons, the Court does not view those negotiations with alleged infringers as an excuse to the delay in bringing this action. First, the negotiations terminated in 1967, at least five full years before this action was commenced. Second, the negotiations never approached the status of litigation, or the complexity, length or expense inherent therein.

Plaintiff's second defense, litigation involving an attack on the inventor's title, presents a somewhat analogous yet distinguishable situation from that usually encountered. Generally,

where other litigation is used as a defense to laches and estoppel, it refers to other infringement litigation in which the plaintiff is involved. Plaintiff here asserts that the intervening litigation, which required a resolution as to his title and ownership of the patent, operates as an *absolute* excuse for the delay. Plaintiff cites several cases which allegedly support this proposition. A review of those cases reveals that none declare such litigation to be an absolute defense and that each is distinguishable on its facts from the case at bar. In Maloney, v. Rocky Mountain Natural Gas, 494 F.2d 401, 181 USPQ 617 (10th Cir. 1974), the plaintiff's assignor had not received title to the patents until just three years prior to the bringing of the action. Up to that point, title had been in the hands of another and subject to dispute. In the present case, plaintiff has always had title despite the Giurato challenge. Huntman Stabilizer Corp. v. General Motors, 53 F.Supp. 43, 59 USPQ 220 (D.C.N.J. 1943), involved a patent interference action in the Patent Office which delayed the issuance of the patents and which had been backed by the defendant in the infringement action. The delay in Taylor Engines, Inc. v. All Steel Engines, Inc. 192 F.2d 171, 92 USPQ 35 (9th Cir. 1951), was the result of a State Court action challenging title brought by the defendants in the infringement action. The defendant here was not a party to the state action against Turner. Berry v. Bohn Aluminum and Brass Co., 43 USPQ 133 (E.D. Mich. 1939), involved a delay due to a priority dispute which ultimately went to the Sixth Circuit Court of Appeals. There, however, plaintiff commenced suit against the defendant prior to the final resolution of the interference action. Here, the plaintiff waited in excess of one year after the termination of the litigation to initiate suit against Dura. Skinner v. Dow Chemical Co., Inc., 85 USPQ 191 (E.D. Mich. 1950), again involved a situation where the plaintiff did not have title until shortly before bringing suit and where plaintiff's assignor refused to bring suit against the infringers. Finally, plaintiff's reliance on Jones v. Ceramco, 184 USPQ 75 (D.C. N.Y. 1974), appears misplaced inasmuch as the decision of the Court refusing to dismiss the infringement action on the basis of laches and

estoppel was reversed on reconsideration by the Court. Jones v. Ceramco, 387 F.Supp. 940, 184 USPQ 591.

The Court in Siemens, supra, was confronted with a situation much the same as that presented in the case at bar. There in defense of a similar motion, the plaintiff asserted excuse resulting from other patent infringement litigation, inventorship litigation, and the unsettled status of its German patent application. The length of the delay, from the time Siemens first learned of defendant's accused product until action was brought, was seven years. Considering the length of the delay and the verified excuses offered by the plaintiff, the Court nonetheless concluded that "plaintiff's dereliction was both unreasonable and inexcusable and has not been adequately explained." This Court is obliged to reach the same conclusion on the facts before it here. Plaintiff offers no excuse for the three-year hiatus prior to the inventorship litigation or for the fourteen months after the resolution of that dispute. At the very least, the plaintiff could have notified the defendant of the possibility of future litigation pending the outcome of the other suit. See: Advanced Hydraulics, Inc. v. Otis Elevator Co., 186 USPQ 1, 4 (7th Cir. 1975); Baker, supra, at 1015, 166 USPQ at 468; Siemens, supra, at 61, 184 USPQ at 435-436; American Home, supra, at 1123, 179 USPQ at 197-198; Minnesota Mining & Mfg. Co. v. Berwick Industries, Inc. 373 F.Supp. 851, 867-868, 182 USPQ 111, 121-123 (M.D. Pa. 1974).

Plaintiff also contends that the time of the delay here involved is less than six years, inasmuch as there could be no infringement of the Turner Patent until the Dura device was installed on a truck. Apparently, counsel for plaintiff would now reverse his earlier position with respect to what parts make-up the combination which is the Turner Patent. Previously, it was argued that the patent did not include a stable axle and wheeled vehicle frame since their inclusion would render the patent void for overclaiming. See page six of this Court's decision of October 9, 1975. Counsel would now contend that only the truckers could be direct infringers thus implying that the truck and its assemblage are integral parts of

the Turner Patent. The Court rejects this argument out of hand. The time, for laches purposes, begins to run with the notice of infringement since December 19, 1966. American Home Products, 173 USPQ at 497; Baker, supra, at 1014, 166 USPQ at 467-468; Advanced Hydraulics, Inc., supra, at 3.

The Court, therefore, concludes that the delay in this case, from the notice of infringement until the commencement of the action, was both unreasonable and not excused.

Prejudice

The Court is aided with respect to the issue of prejudice to the defendant by the presumption of damage which arises where the delay exceeds the applicable six-year statute of limitations. 35 U.S.C. § 286. As the Court noted in General Electric Co. v. Sciaky Bros., Inc., 304 F.2d 724, 727, 134 USPQ 55, 57-58 (6th Cir. 1962):

> "Where the unexplained delay exceeded the applicable period of the statute of limitations, injury to the defendant is presumed. In a patent infringement action equitable principles are applied. Equity will not aid those who have slept on their rights. The failure of General Electric to take action over the many years constituted laches. Whitman v. Walt Disney Productions, Inc. 263 F.2d 229, 120 USPQ 253 (CA 9); Smith v. Sinclair Refining Co., 257 F.2d 328, 118 USPQ 183 (CA 2); Gillons v. Shell Co. of California, 86 F.2d 600, 32 USPQ 1 (CA 9); Woodmanse & Hewitt Mfg. Co. v. Williams, 68 F. 489 (CA 6)."

See also: Siemens, supra, at 61, 184 USPQ at 435-436; Continental Coatings Corp. v. Metco, Inc., 464 F.2d 1375, 1378, 174 USPQ 423, 425-426 (7th Cir. 1972); American Home Products Corp., 173 USPQ at 497. This presumption of damage to the defendant has been sufficient to support a finding of laches, even absent a proof of actual damage. Continental Coatings, supra; Baker, supra.

Even absent this presumption, the Court finds sufficient prejudice to the defendant, resulting from the delay, to support

port a finding of laches. Shortly after the notice of infringement was received by Dura, Murphy, counsel for Dura, suggested that a reserve fund of four to five percent of the sales price be set aside in the event of potential future infringement liability. This fund, whether contemplated or existing, was apparently abandoned by Dura when no response was forthcoming from Turner subsequent to Dura's determination of the patent's invalidity. Had Turner timely prosecuted an infringement action, after the notice of infringement had been given to Dura, the defendant would have had the option of continuing the royalty reserve. Plaintiff's inaction thus resulted in detriment to the defendant.

Further, other steps might have been taken by the defendant to either mitigate or avoid liability to the plaintiff.

> "A number of avenues by which defendant could have protected itself would have been opened. Beltone could have brought a declaratory judgment action under 28 U.S.C. § 2201 if the delay in waiting for the termination of the German administrative and judicial proceedings would have been burdensome. See, e.g., American Home Products Corp. v. Lockwood Mfg. Co., supra, 483 F.2d at 1123, 184 USPQ at 436. Notification also may have prompted Beltone to undertake an immediate reevaluation of its earlier conclusion that Siemens' 'invention' was unpatentable and may have led defendant to modify its production plans for the hearing aids in question. Any subsequent decision by Beltone to proceed with its original models would have been made with full knowledge of the risk of litigation involving those products and the company could have taken steps to mitigate any losses attendant upon an adverse result in such a suit. Id. at 1124, 179 USPQ 198-199. See also Anchor Stove & Range Co. v. Montgomery Ward & Co., supra, 114 F.2d at 895, 47 USPQ at 329-330." Siemens, supra, at 62, 184 USPQ at 436.

See also: Rome Grader & M. Corp. v. J. D. Adams Mfg. Co., 135 F.2d 617, 619, 57 USPQ 442, 443-444 (7th Cir. 1943);

Briggs v. Wix Corp. 308 F.Supp. 162, 170, 163 USPQ 283, 289 (N.D. Ill. 1969). Westco-Chippewa Pump Co., supra, at 186, 17 USPQ at 145-146. Thus, defendant has been damaged not only by what it did in reliance on the inaction and apparent acquiescence of the plaintiff but also by what it might have done had the holders of the patent acted in a manner consistent with one whose rights were being violated by another.

There having been an unreasonable delay, coupled with prejudice to the defendant, a conclusion of laches is appropriate.

Estoppel

While the underlying considerations are generally consistent, there is a distinction between laches and estoppel. As was indicated in Continental Coatings Corp., supra, at 1379, 174 USPQ at 426-427:

> "Although the distinction is sometimes overlooked or obscured, there is indeed an important difference between laches and estoppel. That difference is plainly identified in this Court's opinion in George J. Meyer Mfg. Co. v. Miller Mfg. Co., 24 F.2d 505 (1928). In that case the Court held that the defense of estoppel, as well as laches, was available:
>
> > 'They not only knowingly sat by while appellee built up its large business in bottle washing machines, but, by their conduct, they encouraged the belief that such business would be unmolested. When the Loew Manufacturing Company charged appellee with infringing its Adams & Rice patent and then withdrew its claim, appellee had justification for enlarging its capital and extending its business.'
>
> In later cases this circuit has consistently denied the patentee any relief if the evidence of unreasonable and unexcused delay also disclosed that the patentee's conduct had encouraged the belief that the infringer's business would be unmolested. In each such case the infringement

> notice was either withdrawn or followed by such a long period of inactivity as to justify an inference of abandonment. In some instances the Court failed expressly to mention the term estoppel, but in each case all relief was denied the patentee." (Citations omitted)

See also: Minnesota Mining & Mfg. Co., supra, at 869, 182 USPQ at 123-124; Westco-Chippewa Pump Co., supra, at 186, 17 USPQ at 145-146.

A careful review of the circumstances of this case as previously brought out satisfies the Court that the plaintiff should be estopped from proceeding further with this action. The plaintiff clearly knew of the possible infringement of the defendant in late 1966. After defendant advised the plaintiff of its opinion of the invalidity of the Turner Patent, the plaintiff refrained from any action for a substantial period of time. The defendant was thus justified in proceeding on the supposition that the plaintiff had either acquiesced in its opinion of invalidity or that the plaintiff was abandong its position. It is also important to note that no notice was ever given Dura that plaintiff intended to enforce any possible claims against them. Finally, Dura was prejudiced by the delay.

There being no genuine issue of material fact in dispute with respect to those facts necessary to a determination of the issues of laches and estoppel, summary judgment, pursuant to Rule 56 of the Federal Rules of Civil Procedure, is appropriate.

For the reasons set forth above, defendant's motion for summary judgment be, and hereby is, granted.

Opinion of the United States Court of Appeals for the Sixth Circuit Reversing the Dismissal of the Complaint for Laches and Estoppel

UNITED STATES COURT OF APPEALS
SIXTH CIRCUIT

Argued Oct. 17, 1978

Decided Feb. 16, 1979

No. 77-1118

TWM MANUFACTURING CO., INC. and TURNER QUICK LIFT,

Plaintiffs-Appellants,

—v.—

DURA CORPORATION,

Defendant-Appellee.

Before EDWARDS, *Chief Judge*, MERRITT, *Circuit Judge*, and LAWRENCE,* *District Judge.*

MERRITT, *Circuit Judge.*

Plaintiff TWM, appeals from the entry of a summary judgment sustaining defenses based on the equitable doctrines of laches and estoppel in a patent infringement action. Plaintiff contends (1) that defendant Dura's infringement of the patent was deliberate and calculated, that the delay in bringing suit was in part caused by Dura, and that the balance of equities is sufficiently disputable to preclude summary judgment; and (2) that the district court erred in applying the

* The Honorable Alexander A. Lawrence, Judge of the United States District Court for the Southern District of Georgia, sitting by designation.

doctrine of estoppel to foreclose injunctive relief and the recovery of damages subsequent to the filing of the complaint. We hold that the district court erred in granting summary judgment on the grounds of laches and estoppel. Accordingly, we reverse and remand the case for trial.

The patent (No. 3,285,621) was issued to Steven Turner, Jr. on November 15, 1966. He granted plaintiff an exclusive license. The infringement suit is about an inflatable air bag connected to heavy springs designed to lift and lower axles on truck trailers. The invention allows auxiliary wheels to be suspended above the road surface in order to avoid drag when a truck is carrying a light load and to be put in place on the road when carrying a heavy load.

The infringement action was filed in February 1973, eight years after a patent application was filed and the invention was disclosed to the defendant by letter; just over six years after the patent was issued and formal notice was given to the defendant that its similar air bag suspension device infringed the patent; just under six years after the defendant expressly rejected the claim of infringement; three years after the filing of a suit against TWM by a third party challenging the Turner patent's validity; and one year after that suit was settled.

I. LACHES

The only statute of limitations involving patent infringement suits merely limits the period of recovery of damages to six years, not a patentee's right to maintain an action. Congress has provided that "every patent shall contain . . . a grant to the patentee . . . for the term of seventeen years . . . of the right to exclude others from making, using, or selling the invention." 35 U.S.C. § 154 (1976). During this time, "a patentee shall have remedy by civil action for infringement." 35 U.S.C. § 281 (1976). Courts may enforce patent rights by granting "injunctions in accordance with the principles of equity . . . on such terms as the court deems reasonable," and by awarding "damages adequate to compensate for the infringement." 35 U.S.C. §§ 283, 284 (1976). The statute of

limitations provides that "no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint . . .." 35 U.S.C. § 286 (1976).

Since the statute limits only the period for recovery of damages, courts employ the traditional, equitable doctrine of laches for determining the timeliness of infringement actions. Courts use the six year statutory period for damages, however, as a frame of reference for the application of the doctrine.[1] This is consistent with normal equity practice which considers the passage of time equivalent to a comparable statute of limitations as presumptive of laches.[2]

Using the six-year statutory period for recovery found in 35 U.S.C. § 286, courts have established the principle in patent cases that delay in filing suit longer than six years after notice of infringement creates a presumption of laches.[3] Such a delay is presumed to be unreasonable, and the defendant is presumed to have been prejudiced.[4] The plaintiff will be barred from seeking past damages by laches unless he can (1) rebut the presumption of prejudices;[5] (2) rebut the presumption of unreasonable delay by showing a good excuse for the delay;[6] or

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1 *General Electric Co. v. Sciaky Bros. Inc.*, 304 F.2d 724, 727 (6th Cir. 1962); *Maloney-Crawford Tank Corp. v. Rocky Mountain Natural Gas Co., Inc.*, 494 F.2d 401, 403-04 (10th Cir. 1974); *Whitman v. Walt Disney Productions, Inc.*, 263 F.2d 229, 231 (9th Cir. 1958).

2 Note *Developments in the Law—Statutes of Limitations*, 63 Harv.L.Rev. 1177, 1184 (1950).

3 *Maloney-Crawford Tank Corp. v. Rocky Mountain Natural Gas Co., supra* note 1; *Continental Coatings Corp. v. Metco, Inc.*, 464 F.2d 1375 (7th Cir. 1972) (opinion by Judge, now Mr. Justice Stevens).

4 *General Electric Co. v. Sciaky Bros, supra* note 1 at 727; *Continental Coatings v. Metco, supra* note 3 at 1378.

5 *E.g., Maloney-Crawford Tank Corp. v. Rocky Mountain Natural Gas, supra* note 1 at 404.

6 *E.g., American Home Prod. Corp. v. Lockwood Mfg. Co.*, 483 F.2d 1120 at 1122-24 (6th Cir. 1973), *cert. denied* 414 U.S. 1158, 94 S.Ct. 917, 39 L.Ed.2d 110 (1974).

(3) show that the infringer has engaged in particularly egregious conduct which would change the equities significantly in plaintiff's favor.[7] We must keep in mind, however, that laches is an equitable doctrine with its origin in the conscience of the chancellor, not in the common law rules of the King's Bench or Court of Common Pleas.

We agree with the district court's finding of fact that the period of delay in this case began to run from the notice of infringement given to defendant on December 19, 1966, six years and two months before plaintiff brought this infringement suit. The lower court was, therefore, correct in finding that a presumption of prejudice exists since the period of delay exceeds the comparable six-year statute of limitations. We also agree with the lower court's opinion that the other litigation involving the same patent but a different adversary should not toll the running of the laches period or defeat the defense—with the qualifications outlined below concerning plaintiff's claim that the defendant sponsored the other litigation for purposes of harassment. We, therefore, agree that the plaintiff has rebutted neither the presumption of prejudice nor the presumption of unreasonable delay.

Our disagreement with the district court arises from the fact that plaintiff charges and has come forward with some evidence that the defendant has engaged in egregarious conduct. He has made some showing that defendant's infringement was the result of deliberate, calculated plagiarism. Plaintiff offers proof which at trial may be found to support its position that the defendant, upon receiving information about the Turner invention in 1965, contrived with a consultant or employee to

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7 *Baker v. Simmons Co.*, 307 F.2d 458, 466 n.4 (1st Cir. 1962); *Potash Co. v. Int'l Minerals & Chem. Corp.*, 213 F.2d 153, 155 (10th Cir. 1954); *Middletown v. Wiley*, 195 F.2d 844, 847 (8th Cir. 1952); *France Mfg. Co. v. Jefferson Electric Co.*, 106 F.2d 605, 609 (6th Cir. 1939), *cert. denied* 309 U.S. 657, 60 S.Ct. 471, 84 L.Ed. 1006 (1940); *MY-T Fine Corp. v. Samuels*, 69 F.2d 76, 77 (2d Cir. 1934). *See also Holmberg v. Armbrecht*, 327 U.S. 392, 396, 66 S.Ct. 582, 90 S.Ct. 743 (1946); *Gruca v. United States Steel Corp.*, 495 F.2d 1252, 1259-60 (3d Cir. 1974); *Marcee v. United States*, 455 F.2d 527, 197 Ct.Cl. 363 (1972).

copy the invention and, in fact, copied it. Plaintiff additionally offers proof that defendant initiated or sponsored the litigation by a third party challenging the validity of the Turner patent in order to harass plaintiff and to keep the patent's validity in question while defendant developed and sold its competing product. If the plaintiff can prove these claims of plagiarism and harassment at trial, the equities would not favor defendant's claim of laches.[8]

Since the district court did not discuss or make findings on the issues of plagiarism and harassment, issues intimately tied to the question of infringement, we believe that the case should proceed to trial on the merits. If either of these issues is resolved against the defendant, the district court should not sustain the defense of laches. Only if both issues are resolved against the plaintiff should the district court sustain the defense.

II. ESTOPPEL

Laches alone does not foreclose a plaintiff's right in an infringement action to an injunction and damages after the filing of the suit. Only by proving the elements of estoppel may a defendant defeat such prospective relief.[9] To work an estoppel, defendant must normally show, in addition to laches, that he was misled in some fashion by the plaintiff. The difference between laches and estoppel is well set out in the Seventh Circuit's opinion in *Advanced Hydraulics, Inc. v. Otis Elevator Co., supra* note 9, in which the late Mr. Justice Clark said:

> . . . where "deferment of action to enforce claimed rights is prolonged and inexcusable and operates to defendant's material prejudice", laches is "an effectual bar" to recovery. [Citation omitted.]
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> * * * *

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8 *See* note 7 *supra.*

9 *Advanced Hydraulics, Inc. v. Otis Elevator Co.*, 525 F.2d 477, 479-80 (7th Cir.), *cert. denied*, 423 U.S. 869, 96 S.Ct. 132, 46 L.Ed.2d 99 (1975); *Continental Coatings v. Metco, supra* note 3 at 1379-80.

> Estoppel, on the other hand, . . . "arises only when one has so acted as to mislead another and the one thus misled had relied upon the action of the inducing party to his prejudice." [Citation omitted.]

Id. at 479-80. The elusive doctrine of equitable estoppel at least requires representations or conduct which justify an inference of abandonment of the patent claim or that the plaintiff has induced the infringer to believe that its "business would be unmolested."[10] For silence to work an estoppel, some evidence must exist to justify an inference that the silence was sufficiently misleading to amount to "bad faith."[11]

We reverse the entry of summary judgment on the grounds of estoppel for three reasons.

First, as we have already noted, plaintiff has raised the issue of defendant's entitlement to the defense of laches due to the unresolved question of defendant's alleged inequitable conduct. If proven, this misconduct may also defeat defendant's use of the equitable defense of estoppel.[12] The district court must therefore weigh this conduct in balancing the equities on the question of defendant's entitlement to this defense.

Second, even if the defendant's conduct does not bar its entitlement to the defense of estoppel, the district court must alter the standard by which it examines this defense. The lower court based its finding of estoppel on the fact that plaintiff had not objected to the alleged infringement for a substantial period of time. It said:

> The plaintiff clearly knew of the possible infringement of the defendant in late 1966. After defendant advised the plaintiff of its opinion of the invalidity of the Turner

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10 *Continental Coatings v. Metco, supra* note 3 at 1380.

11 *Cf. Walter Bledsoe & Co. v. Elkhorn Land Co.*, 219 F.2d 556, 559 (6th Cir. 1955) (Silence to work an estoppel in a suit for unpaid rents and royalties, must amount to bad faith). *See also* Note, *Developments in the Law—Statutes of Limitations*, 63 Harv.L.Rev. 1177, 1222-24 (1950).

12 *See* note 7 *supra*.

> Patent, the plaintiff refrained from any action for a substantial period of time. *The defendant was thus justified in proceeding on the supposition that the plaintiff had either acquiesced in its opinion of invalidity or that the plaintiff was abandoning its position.* (Emphasis added.)

This is an inadequate basis for a finding of estoppel, since, as we have stated, estoppel requires more than mere silence. The record does not disclose, and the district court does not point to, any misrepresentations, affirmative acts of misconduct, or intentionally misleading silence by the plaintiff. Such findings are necessary in order to establish an estoppel.[13]

Third, the district court was clearly erroneous in finding as an indisputable fact on summary judgment that the defendant was "justified in proceeding on the supposition that the plaintiff had either acquiesced in its opinion of invalidity or that the plaintiff was abandoning its position." The record before the district court on summary judgment, and now before us, suggests that the defendant attentively followed the course of the other litigation involving the Turner patent even if it did not sponsor it. The record suggests that the defendant was aware that plaintiff was defending its rights under the patent in the other litigation. If this is indeed the case, based on its knowledge of plaintiff's position, defendant was not "justified" in believing that "the plaintiff was abandoning its position." We believe the facts on this question are sufficiently disputable as to render the entry of summary judgment inappropriate.

Accordingly, we reverse the district court's entry of summary judgment and remand the case for trial on the merits of plaintiff's claims. At trial, the district court should consider defendant's equitable defenses according to the standards set forth in this opinion. Costs of appeal are taxed to appellee.

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13 *See* notes 10, 11 *supra*.

Opinion of the United States District Court for the Eastern District of Michigan Finding the Patent-in-Suit To Be Valid and Infringed

DISTRICT COURT
E.D. MICHIGAN, S. DIV.

No. 4-72852

Decided May 21, 1981

TWM MANUFACTURING COMPANY, INC.

—v.—

DURA CORPORATION

GILMORE, *District Judge* (orally).

The court: All right, thank you, gentlemen, very much. It has been a long case and your findings have been most helpful to the Court.

First of all, I want to state that the Court has not considered and will not consider the Defendant's defense of abandonment claimed under 35 USC 102(c). The question of abandonment was not raised at any time during the trial, was not pleaded, and was raised for the first time in the Defendant's Proposed Findings of Fact. Such a defense has never been pleaded, propounded or proposed, even though the case has been in this Court since late 1973 or early 1974, seven to eight years. The Court, therefore, is not considering in its disposition the defense of abandonment and will completely ignore it.

The first issue to be decided is the validity of the patent, and I think I should address that, and then after I address that, address infringement, and then, if necessary, go on to estoppel and laches.

I appears to me clearly, starting off, that this patent is a valid patent, and the claims of the Defendant that it is obvious and does not comply with 35 USC 112 are without basis. The invention, in my opinion, is non-obvious, and the scope and the content of the prior art, all presented at trial, do not anticipate the Turner patent. This patent has the beauty of simplicity. It provides a leaf spring and an airbag, and by a very simple method, accomplishes the purpose of lifting and lowering the wheels in question. This had never been done in this way before. I think it is non-obvious to someone skilled in the art.

In reaching this conclusion, I start with the basic proposition that a patent is presumed to be valid and the burden is on the party alleging invalidity. 35 USC 282. Defendant relies on 35 USC 103 and 35 USC 112 to invalidate the Turner patent.

With reference to 35 USC 103, the section reads, in pertinent part,

> "A patent may not be obtained * * * if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."

In determining the existence of obviousness, this Court must look to the scope and content of the prior art and differences between the prior art and the claims at issue. Graham v. John Deere, 383 U.S. 1, 148 USPQ 459. I find no prior art that anticipates the Turner patent.

Defendant has asserted that a combination of the patents to Kulyk, 3093388, Hoffmeister, 1622719, and Edgington, 1388809, as allegedly rendering the Turner invention obvious. Kulyk has no place in the historical development of lift axles. It is a paper patent and although I agree that a paper patent can still be prior art, it is nonetheless a paper patent and represents nothing more than problems overcome by Turner. It is an add on to suspension springs with a torsion bar and the lifting mechanism is a torsion bar and coil springs. In the

Turner patent, the leaf springs serve the same function as a torsion bar, coil spring beam and shock absorber in the Kulyk patent. It is obvious that this patent, in my opinion, does not anticipate Turner in any way because, as I pointed out before, Turner has the beauty of efficiency and economy in getting a satisfactory result and satisfactory suspension.

The next significant claim to prior art is Hoffmeister. I think it is clear that no one skilled in the suspension art would look to the dangerous contraption of Hoffmeister to solve any problem in the axle-suspension art. In fact, I think it is almost silly to suggest Hoffmeister is relevant prior art. Hoffmeister is a sledge device mounted under an automobile which used compressed air for moving the toboggan member of the slide to an operative position and springs for turning the toboggan member to an inoperative position. Underneath the vehicle, the compressed air control is used to move them to and from an operative position, and there is also a pair of opposed springs interposed between the toboggan member and the body. The purpose of this Rube Goldberg contraption was to lift an automobile in slippery weather and aid it in moving along in ice and snow. It has nothing to do with axle suspension nor has any function in the axle suspension art. The mere fact it has an airbag and opposing leaf springs do not in any way make it prior art for the instant case.

The third claim is that Edgington is also prior art. This patent, a 1921 patent, is a patent that uses a leaf spring to raise and lower a road scraper to scrape dirt. It is a crude, nonaxle bearing road scraper that has nothing to do with the art of axle suspension. If one is to say that Edgington is prior art, then one would have to say that any device that uses a leaf spring in any way to raise and lower any other device is prior art and would invalidate the patent. That just is not true factually or legally. Edgington I do not think is prior art.

Furthermore, the Turner patent claims do not recite an "old combination." See 35 USC 112. The Turner patent enjoys a presumption of validity. No reasonable member of the public, much less one skilled in the art, would be left with the

impression from reading the Turner patent entitled "Wheeled Vehicle Suspension" that Turner intended anything else but a patent to lift axle suspensions. The recitation of the truck frame and primary axle do not mislead and are properly used to place the new suspension in its operative environment whereby the truck frame serves to aid in retaining the non-load bearing leaf spring in its unique upwardly biased mode and the primary axle allows the unique suspension to function as a lift axle.

The Turner patent derives a large portion of its inventiveness from the unique way in which the combination of its parts function to produce new, unexpected and synergistic results. It does not recite old combinations, it is non-obvious. Some of the greatest things in this world arise from simplicity, and Turner has that beauty of simplicity and beauty of effectiveness. It is clearly, in my opinion, a valid patent.

The next issue is whether Defendant's device, the Dura 1400, infringes the patent. Dura's own release, dated March 28, 1967, Plaintiff's Exhibit 1A, Pages 394 to 395, state this of the Dura 1400 suspension, and this is Dura's own language:

> "This is an air-suspended axle in which a steel leaf spring acts as a positive retracting force lifting the axle from the ground automatically when the air is off * * *"
>
> Continuing to the next paragraph, "With the air spring inflated to operating pressure, the axle is forced against the steel spring until the wheels are in proper contact with the road. This gives the load an air ride. But the steel spring, now a counter force against the air spring, assumes a shock absorbing, stabilizing, and tracking function to improve the overall efficiency of the assemble.
>
> "As a result * * * the Model 1400 can be used on truck chasis as pusher or tag, and also used for trailer application * * *"
>
> This description accurately describes the Dura 1400, its functions and its operations. It is also a totally accurate description of the functions and operation of the Turner

patent as recited in claims one to three of the Turner patent. Claims one and three of the Turner patent, read literally, cover the Dura 1400 suspension when installed on a truck according to Dura's installation instructions. Every element, function and result recited in claims one to three of the Turner patent is correspondingly found in Dura's 1400 suspension when installed on a truck according to Dura's installation instructions. The Dura 1400 suspension performs substantially the same function as the Turner in substantially the same way to obtain the same results.

The claim of Defendant that the Dura 1400 doesn't infringe because the airbag is not between the frame and axle is not significant in any way. The use of the two airbags on a pontoon instead of one directly over the axle is a functional equivalent to the use of one airbag between the axle and the frame. The two systems function exactly the same as described in the Turner claims. The lupi used in the Dura 1400 suspension securing the end of the leaf spring to the vehicle frame is within the meaning of the claims of the Turner patent, and the shackle used in the Turner patent and the lupi used in the Dura 1400 are functional equivalents and are merely design alternatives.

Thus, it is clear that the use of airbags, two airbags on a pontoon, instead of one directly over the axle, is but a distinction without a difference. This Court concludes that there is no question but what there has been and is infringement of the Turner patent by the Dura 1400 device, and the Court further finds that there was willful infringement after the issuance of the Turner patent because Dura was well aware of the existence of Turner, was well aware of what Turner did, was well aware of the practically identical nature of its Dura 1400 with the Turner patent. I therefore find willful infringement after the issuance of the patent as a matter of fact and law.

I also want to comment on one fact that no one has addressed in argument and one that has troubled me a great deal, and I think it is of great significance to note. That is that it was only on cross examination that it was brought out that

Mr. Gottschalk, Defendant's expert, was associated with the Defendant's firm during the pendency of this cause. On cross examination, it was pointed out that on October 27, 1975, while this case was pending, he was listed as of Counsel on Defendant's lawfirm stationery, and he admitted on cross examination that during the pendency of this case, he was of counsel to the defendant. This raises serious questions in my mind as to whether he should have been permitted to testify at all because of the proscriptions in Disciplinary Rules 5-101 and 5-102 of the Code of Professional Responsibility. However, he did testify, and it was not until cross examination that the Court learned that he had once been associated with the lawfirm representing Defendants. Had this matter been brought to my attention earlier, I would have had an opportunity to determine whether I would permit Mr. Gottschalk to testify as the Defendant's expert. So there was a clear potential violation of DR5-101 and DR5-102 in having Mr. Gottschalk testify. I think this casts serious doubt upon the credibility of Mr. Gottschalk, and because of this, and because I was not informed of his relationship, I am discounting and finding much of Mr. Gottschalk's testimony incredible.

I have found that the patent is valid, I have found that there has been infringement, and I have found that there has been willful infringement on the part of the Defendant. That brings us now to the question of laches and estoppel, which must be disposed of in the handling of this matter.

Now this matter has been to the Sixth Circuit in the case of TWM Manufacturing v. Dura Corporation, 592 F.2d 346, a 1979 case. The Sixth Circuit dealt with these issues on appeal. That Court held, first, with reference to laches, that Plaintiff would be barred from seeking past damages by laches unless he could (1) rebut the presumption of prejudice, (2) rebut the presumption of unreasonable delay by showing good excuse; or (3) show that the infringer had engaged in particularly egregious conduct which would change the equities significantly in Plaintiff's favor. The Court, the Sixth Circuit, agreed with the District Court, my predecessor in this case, that the Plaintiff had not rebutted the presumption of prejudice nor the

presumption of unreasonable delay, but held that the trial court should make findings on allegations of plagiarism and harassment, which purportedly constituted the egregious conduct on the part of the Defendant. The Sixth Circuit then held that if either of these issues, that is, plagiarism or harassment, is resolved against the Defendants, then the District Court should not sustain the defense of laches. But if both issues were resolved against the Plaintiff, the District Court should sustain the defense.

Now Plaintiff claims that the Defendant, upon receiving information about the Turner invention in 1965, contrived with a consultant or employee to copy the invention, and in fact did copy it, and that the Defendant initiated or sponsored litigation by a third party challenging the validity of the Turner patent in order to harass and keep the patent's validity in question while Defendant developed and sold its competing product. These are the claims of the egregious conduct that the Court of Appeals mentions.

Now first, with reference to copying and plagiarism. I think the law is clear, and it has not really been disputed here — well, first I think the facts show clearly, and I so find, that while the Turner patent was pending, Mr. Turner sent the patent application to Page & Page, which was part of Dura Corporation, and that patent application was received by Dura Corporation and was the subject of much conversation in Dura Corporation. What happened to that patent application after that no one seems to know. No witness was able to come forth in this courtroom and say what happened to the patent application. It was never acknowledged to Mr. Turner by Dura, although it is acknowledged that it was received. The witnesses from Dura Corporation say they have thoroughly searched their records, they are unable to find it, and as I say, there is no evidence in this case as to what happened to that patent application which was sent to Page & Page.

However, I think it is quite remarkable, and an amazing coincidence, that in a time frame very close to the sending of that patent application, that Dura came on the market with its Dura 1400, which I have already held infringes Plaintiff's

patent and willfully infringes the patent. It is true that Mr. McGee said they got that from Mr. Vardi and that Mr. McGee said that he never heard of Turner, but the fact remains that Turner's patent was long afterward the—I mean the Vardi patent was long after the Turner patent. I think three years afterwards, and I think it is indeed a strange coincidence that the patent application would be sent to Dura, that Dura would never acknowledge it, that Dura would then commence manufacturing and infringing a product, and after the product was patented, Dura continued with willful infringement. I think all of that is an odd series of circumstances and coincidences.

Now I think the law is clear, and as I read it from several cases, including Graver Tank and Manufacturing v. Linde Air Products Company, 339 U.S. 605, 85 USPQ 328, and other copyright cases on the copying issue, that access plus similarity equals copying, and that the burden of proof, when that is shown, is upon the Defendant to show that there was no copying and no plagiarism.

Now here I find as a matter of law that when there has been access, as here, in patent law, I find this, I find that when there is then similarity, or almost contemporaneously therewith with the proposed 14 patent invention. I find that the burden has then shifted to the Defendant to show that this was not copying and that this was indeed independently arrived at without reference to the Turner patent. I do not find the Defendant has carried that burden. I think he has failed to carry any burden on that. And so, I do think there was here plagiarism on the part of the Defendant, and I think that that plagiarism amounts to such egregious behavior as to get over the question of laches so that I do not even have to turn to the question of harassment. I think that there is sufficient evidence of plagiarism which is egregious in this case to hold that following the Sixth Circuit in TWM Manufacturing v. Dura Corporation, that the defense of laches may not be asserted, and therefore, there is no defense of laches that can be asserted in this case, and I hold that it is not properly in the case.

That turns us then, if we may, to the question of harassment, and the Court of Appeals held, on the question of estopped, Page 350 of 592 F.2d, 201 USPQ at 436.

> "The record does not disclose, and the District Court does not point to, any misrepresentations, affirmative acts of or intentionally misleading silence by the Plaintiff. Such findings are necessary in order to establish an estoppel."

Clearly in this case there is no evidence of affirmative acts of misconduct by the Plaintiff. There is no evidence whatever of intentionally misleading silence by the Plaintiff and there is no evidence of any misrepresentation by the Plaintiff. Plaintiff was an innocent entrepreneur in this case who I think was done in by the Defendant. Therefore, I find as a matter of law there is no estoppel.

This being so, the Court having determined that the patent is valid, having determined that there has been infringement, having determined there has been willful infringement, having determined that there has been no laches and determined that there has been no estoppel, I hold that the Plaintiff is entitled to injunctive relief, and he may have an injunction from this day forward against infringement and manufacture of the Dura 1400, and he may have damages to be assessed.

Now the question of whether I assess enhanced damages I am not going to rule on today. 35 USC 284 provides that,

> "When the damages are not found by a jury, the Court shall assess them. In either event the Court may increase the damages up to three times the amount found or assessed."

I am not ruling today on what I will do with reference to enchanced damages.

With reference to attorney fees, which have been asked for, actual attorney fees, which are authorized under 35 USC 285, the statute says, "The Court in exceptional cases may award reasonable attorney fees to the prevailing party." The Sixth Circuit law on that point seems to be found in the case of Deyerle v. Wright Manufacturing Company, 496 F.2d 45, 181 USPQ 685. On Page 54 and Page 55 of that opinion, 181 USPQ at 690-692, the Court says,

> "Section 285 of Title 35 permits an award of attorney's fees in patent cases where the circumstances are exceptional. In Hoge Warren Zimmerman Company v. Nourse & Company, 293 F.2d 779, 784, 130 USPQ 382, 386-387 we noted that 'exceptional circumstances have been interpreted as incorporating concepts of fraud, malice, bad faith and other similar concepts.' In Uniflow Manufacturing Company v. King-Seeley Thermos Company, 428 F.2d 335, 341, 166 USPQ 70, 74-75, we indicated that an award of attorneys' fees will be upheld if the trial court specifically finds conduct that is unfair, in bad faith, inequitable or unconscionable. An award made pursuant to findings such as these is discretionary."

In this case I have found willful infringement. I have certainly found misconduct as a matter of fact and law by Dura Corporation and its agents. However, I am not prepared to say that I can go as far to say that there has been bad faith action, that the Dura Corporation has acted in such bad faith as to authorize attorneys' fees, so I do not think the standard of 35 USC 284 as set forth in Deyerle v. Wright Manufacturing Company has been met. This does not mean, however, that I cannot consider enhanced damages because as I read the law, the standard for enhanced damages up to treble damages is not as stringent a standard as the standard which is set forth for the granting of the actual attorney fees.

Therefore, for the reasons given, I will enter an injunction immediately. I will ask the Plaintiff to prepare a judgment on this. I will direct the parties to communicate with the Clerk forthwith or within the next week to obtain a date for the taking of testimony on the issue of damages. What I have just said will constitute the findings of fact and conclusions of law of the Court as required by FRCP 52A.

All right, gentlemen, thank you all very much.

Mr. Van Santen: Your Honor, may I make one comment?

The Court: You may, sir.

Mr. Van Santen: In defense of former Commissioner of Patents, Mr. Gottschalk, I think I would like to move the

Court for leave to present evidence of the fact that his retainer as an expert in this matter was long after he had severed all relationship with our lawfirm.

The Court: Well, that may be, and I didn't say that it wasn't, sir. What I said was that he was a member of your lawfirm at the time this case was being prosecuted; therefore, he is presumed to be participating in it under the vicarious disqualification rule, and that that was not brought out nor disclosed to me until cross examination came in. It is a matter, in my opinion, that should have been brought before he testified and the facts set forth then and a ruling sought as to whether he could or could not testify as an expert. His association with your firm during the course of this lawsuit is what would serve as a possible, I am not saying he would be, after I heard all the facts, I am saying is a possible disqualifying factor under DR5-101 or DR5-102. Now it may or may not. I am not saying it is. But I think the fact that it was not revealed to this Court, that I had to learn about it on cross examination before he testified is the thing that troubled me and upset me. I am not saying he would have been disqualified. I am not saying I would have disqualified him had you brought it to my attention, but I think the fact that it was not brought to my attention prior to the time he testified nor was it brought to my attention by the proponent of the evidence on direct examination, it was forced to wait until cross is what troubled me because there may or may not be a basis for disqualification. But I am troubled that I was not given the opportunity to pass on that until we got into cross examination when it was too late.

Opinion of the United States Court of Appeals for the Sixth Circuit Affirming the Validity and Infringement Judgment

UNITED STATES COURT OF APPEALS
SIXTH CIRCUIT

Argued March 24, 1983

Decided November 18, 1983

Rehearing and Rehearing En Banc
Denied Jan. 9, 1984

Docket Nos. 81-1530, 82-1265

TWM MANUFACTURING COMPANY, INC., and
TURNER QUICK-LIFT CORPORATION,
Plaintiffs-Appellees,

—v.—

DURA CORPORATION and KIDDE, INC.,
Defendants-Appellants.

Before: MERRITT and WELLFORD, *Circuit Judges*, and BROWN, *Senior Circuit Judge*.

BAILEY BROWN, *Senior Circuit Judge*.

Appellee TWM Manufacturing Company, the owner of the Turner patent (No. 3,285,621), brought this infringement suit against appellant Dura Corporation.[1] TWM claims that its

1 Kidde, Inc. is the parent corporation of Dura and was joined as a party defendant pursuant to Rule 25(c), Fed.R.Civ.P.

patent, a design for a device to raise and lower an auxiliary axle and wheels, is infringed by Dura's Model 1400 series suspension. The district court held that the patent was valid and denied Dura's defense of laches and estoppel. The court granted TWM a permanent injunction prohibiting further infringement by Dura and ordered an accounting of the profits from the infringement. Nine months later, the court found Dura in criminal contempt for violating the injunction by selling spare parts for the suspension. The court assessed Dura with a fine and attorneys' fees. For the reasons stated below, we affirm the lower court's holding that the suit was not barred by laches and estoppel and that the Turner patent is valid. We hold, however, that although the court properly found that Dura had violated the injunction, the evidence fails to support a holding of criminal contempt.

I.

On November 15, 1966 Stephen Turner, Jr. was awarded U.S. Patent No. 3,285,621 for a "Wheeled Vehicle Suspension." Turner's device enables a truck to engage an additional axle and wheels to carry heavy loads. Airbags above the auxiliary axle are inflated to lower the wheels to the road surface. Two upwardly biased leaf springs attached to the vehicle frame at each end of the axle resist the axle as it is lowered. When the additional wheels are no longer required, the airbags are deflated and the springs raise the wheels above the road surface to decrease drag and reduce wear on the tires. When the auxiliary axle is engaged, the airbags and springs stabilize the suspension and act as shock absorbers.

In March 1965, Turner sent a copy of his patent application to the Dura Corporation, a manufacturer of truck suspensions. Dura received the application but never responded. In December 1966, several weeks after Turner received his patent, Dura began to advertise its 1400 series suspension. Later that month,

Turner sent Dura a notice of infringement. More than six years later, in February 1973, TWM, which had acquired an exclusive license to the patent in 1969, filed an infringement suit against Dura.

On December 3, 1975 the district court granted Dura summary judgment on the grounds of laches and estoppel. The court held that the delay of more than six years in commencing the action was unreasonable and prejudiced the defendant, barring recovery by TWM. On appeal, this court reversed the district court's judgment and remanded the case with guidelines for applying the defenses of laches and estoppel. *TWM Mfg. Co. v. Dura Corp.*, 592 F.2d 346 (6th Cir.1979).

On remand, the case was tried before the court sitting without a jury. On May 21, 1981 the court delivered an opinion from the bench adjudging the Turner patent valid and holding that Dura had willfully infringed the patent. The trial judge held that Dura's failure to rebut evidence implying that it had copied the Turner patent precluded Dura from raising the defense of laches. The court also found that TWM committed no acts of misrepresentation that would estop its infringement claims against Dura. The district court permanently enjoined Dura against further infringement and ordered an accounting of the damages.

The district court denied Dura's motion under Rule 62, Fed.R.Civ.P., to stay the injunction and damage determination. On appeal, this court affirmed the district court's denial of Dura's motion to stay the injunction pending appeal of the lower court's decision on the merits. This court, however, reversed the district court and granted Dura's request to stay the accounting procedures. Following this court's order, Dura posted a $5,000 supersedeas bond.

On March 5, 1982, in response to TWM's motion to hold Dura in contempt, the district court found that Dura had violated the terms of the injunction by selling repair parts for the model 1400 suspension. The court held Dura in criminal contempt, fined the company $10,000 and assessed it with $12,097.10 in attorneys' fees and expenses for TWM's costs of bringing the contempt action.

Dura appeals the district court's holdings that the Turner patent is valid and that the infringement suit is not barred by TWM's delay. Dura also appeals the holding of criminal contempt for violation of the injunction. These appeals were consolidated for argument and decision.[2]

II.

A. Patent Validity

Dura's principal argument is that the Turner patent is invalid because it is obvious to someone skilled in the art.[3] The ultimate question of obviousness is one of law. *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273, 96 S.Ct. 1532, 47 L.Ed.2d 784 (1976); *Reynolds Metals Co. v. Acorn Bldg. Components, Inc.*, 548 F.2d 155 (6th Cir.1977). The district court's determination of the factual predicates of obviousness are binding on appeal unless the findings are clearly erroneous. *Armco, Inc. v. Republic Steel Corp.*, 707 F.2d 886, 888-89 (6th Cir.1983); *Minnesota Mining and Mfg. Co. v. Blume*, 684 F.2d 1166, 1172 (6th Cir.1982); *cert. denied*, ____ U.S. ____, 103 S.Ct. 1449, 75 L.Ed.2d 803 (1983).

In its challenge to the district court's judgment that the Turner patent was not obvious, Dura contends that the court comitted the following errors: (1) The court failed to make factual findings as required by *Hieger v. Ford Motor Co.*, 516 F.2d 1324 (6th Cir.1975), *cert. denied*, 423 U.S. 1056, 96 S.Ct. 788, 46 L.Ed.2d 645 (1976). (2) The court failed to consider

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2 Dura does not appeal the district court's finding that its manufacture of the 1400 suspension willfully infringed the patent.

3 35 U.S.C. § 103 states:

> A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title [35 U.S.C. § 102], if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

evidence that would have shown that the Turner design was obvious to a person skilled in the art. (3) The court improperly discounted the testimony of Dura's expert witness, Robert Gottschalk. We have considered these alleged errors and find them without merit.

When a question of obviousness is raised, the district court must make factual findings regarding the "scope and content of the prior art," "the difference between the prior art and the claims at issue," and the "level of ordinary skill in the pertinent art." *Graham v. John Deere Co.*, 383 U.S. 1, 17 86 S.Ct. 684, 694, 15 L.Ed.2d 545 (1966); *Hieger*, 516 F.2d at 1327. Such findings need only be apparent from the court's opinion and need not be set forth specifically. *See Universal Elec. Co. v. A.O. Smith Corp.*, 643 F.2d 1240 (6th Cir.1981); *National Rolled Thread Die Co. v. E.W. Ferry Screw Prod.*, 541 F.2d 593 (6th Cir. 1976). The record shows that the trial court made findings that satisfy the requirements of the *John Deere* test, and we hold that none of these findings is clearly erroneous.

The test for pertinent art is "similarity of elements, problems, and purposes." *Skega Aktiebolag v. B.F. Goodrich Co.*, 420 F.2d 1358, 1359 (6th Cir.), *cert. denied*, 400 U.S. 825, 91 S.Ct. 49, 27 L.Ed.2d 54 (1970). In defining the scope and content of prior art, the court considered three patents: Kulyk (No. 3,093,388), Hofmeister (No. 1,622,719) and Edginton (No. 1,388,809). Only Kulyk, the court held, was pertinent as prior art. Hofmeister uses air bags and opposing elliptic leaf springs to raise and lower sled runners beneath a vehicle, transforming an automobile into an "autoboggan." Edginton employs elliptic leaf springs and a simple lever to raise and lower a road scraper. The court held that these patents did not constitute prior art because their designs contributed nothing to solve the special problems of a liftable, auxiliary axle suspension. Testimony at trial established that the trucking industry had experimented with various ways to engage auxiliary axles and stabilize the load-carrying capacity of such systems. We do not believe that the court erred in limiting the prior art to developments within this field. *See Omark Industries, Inc. v. Textron, Inc.*, 688 F.2d 1242, 1248 (9th Cir.1982).

The district court found that "it is clear that no one skilled in the suspension art would look to the dangerous contraption of Hofmeister to solve any problems in the axle-suspension art." This finding is supported by expert testimony in the record. The only relevance of the Edginton, the court held, was its use of a leaf spring. The court refused, we think properly, to extend the scope of prior art to "any device that uses a leaf spring in any way to raise and lower any other device."

The Kulyk patent, in contrast with the other patents cited by Dura, discloses a device to raise and lower an auxiliary axle. Kulyk employs air bags to lower an axle assembly which is raised by three coil springs and a torsion bar when the bags are deflated. The torion bar runs across the width of the vehicle frame, and the springs are located at the middle of the axle. The device also uses shock absorbers to stabilize the wheels against lateral forces. The court found that Turner differed from Kulyk in that Turner's leaf springs serve the same function as the torsion bar, coil springs and shock absorbers in the Kulyk patent. The court concluded that Kulyk "represents nothing more than problems overcome by Turner."[4]

The trial court failed to make express findings regarding the level of ordinary skill in the pertinent art. This omission, however, is not reversible error for we are satisfied that the court adequately considered this element of the *John Deere* formulation. Implicit in the court's holding is a determination of ordinary skill. *See Universal Electric Co. v. A.O. Smith*, 643 F.2d at 1246-47; *Frantz Mfg. Co. v. Phenix Mfg. Co.*, 457 F.2d 314, 322-23 (7th Cir.1972). The district court expressly found that no one skilled in the art would look to Hofmeister to solve the problems of designing a load-bearing, auxiliary axle suspension. The court's consideration of the Kulyk patent and its

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4 Dura objects to the court's characterization of Kulyk as a paper patent. 'Paper patent' refers to a patent that was never used commercially. But the trial judge noted: "[A]lthough I agree that a paper patent can still be prior art, it is nonetheless a paper patent." This observation was not error. The commercial success of the Turner patent when compared to the Kulyk patent is a relevant, albeit secondary, consideration. *Kaiser Industries v. McLouth Steel Corp.*, 400 F.2d 36, 42 (6th Cir. 1968).

finding that the patent "has no place in the historical development of lift axles" indicates that the court was aware of and was implicitly stating the engineering skill that had developed within the pertinent art.

As with all the elements of the *John Deere* test, Dura has the burden of proof on the issue of ordinary skill. *Armco Inc. v. Republic Steel Corp.*, 707 F.2d at 889-90. In this regard, Dura relies on evidence of the contemporaneous development of an unsuccessful hydraulic lift axle by Michael Bilas, an "ordinary trucker." If anything, this evidence is indicative of a non-specialized level of skill rather than professional training and expertise. Such a level of skill is consistent with the court's evaluation of the pertinent art and the advantages of Turner's design. Thus, we cannot hold the finding of ordinary skill which implicitly informed the court's holding was clearly erroneous.

Dura argues that the trial court erred in failing to consider contemporaneous development of lift axles as evidence that the Turner device was obvious to someone skilled in the art. The Bilas design, as noted above, was a failure. It, like Kulyk, is noteworthy because it illustrated the problems that Turner overcame. Dura also contends that an inventor under its contract, Sam Verdi, developed the 1400 suspension just as Turner received his patent. Yet there is considerable evidence to suggest that Verdi plagiarized the Turner patent. The court's refusal to accept Dura's account of the origin of the 1400 suspension was not clearly erroneous.

Dura called as its only expert witness Robert Gottschalk. During cross examination, Gottschalk admitted that he was "of counsel" to Dura's law firm during the pendency of the infringement suit. In its opinion adjudging the Turner patent valid, the court found that the failure to disclose Gottschalk's position at the outset of his testimony cast "serious doubt upon the credibility of" his statements. The court held that the association with Dura's law firm was a "clear potential violation of DR 5-101 and DR 5-102 . . . and because of this, and because I was not informed of his relationship, I am discount-

ing and finding much of Mr. Gottshalk's testimony incredible."[5] Dura argues on appeal that this holding was an abuse of the court's discretion.

The trial court exercises broad discretion in its evaluation of expert testimony, and its findings are not to be distrubed unless clearly erroneous. *United States v. Green*, 548 F.2d 1261, 1268 (6th Cir.1977). Although some courts have permitted lawyers to testify on behalf of clients, the practice has been regularly criticized. *See e.g., United States v. Nyman*, 649 F.2d 208 (4th Cir. 1980); *Waltzer v. Transidyne General Corp.*, 697 F.2d 130 (6th Cir.1983); *Lau Ah Yew v. Dulles*, 257 F.2d 744 (9th Cir. 1958). In *Universal Athletic Sales Co. v. American Gym, Recreational & Athletic Equip. Corp.*, 546 F.2d 530, 539 (3d Cir. 1976), *cert. denied*, 430 U.S. 984, 97 S.Ct. 1681, 52 L.Ed.2d 378 (1977), the lower court was found to have erred by placing too much reliance on the testimony of a patent expert associated with the defense counsel. The court held, "We believe that, while a district court may in limited circumstances receive the testimony of a lawyer-witness, the value of such testimony must be discounted because of the interest of the lawyer or his firm in the outcome." 546 F.2d at 539-40. In this case, doubts about the value of Gottschalk's testimony were compounded by Dura's failure to disclose his relationship to counsel before his testimony. Accordingly, we hold that the court's assessment of Gottschalk's credibility was not an abuse of discretion.

The district court's holding that the Turner patent was not invalid for obviousness is a determination of law that is fully reviewable on appeal. *Westwood Chem. Inc. v. Owens-Corning Fiberglas Corp.*, 445 F.2d 911, 914 (6th Cir.1971), *cert. denied*, 405 U.S. 917, 92 S.Ct. 941, 30 L.Ed.2d 786 (1972). To pass the test of obviousness, a combination patent such as Turner must possess an "impalpable something," a "synergis-

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5 Rules DR 5-101 and 5-102 of the Code of Professional Responsibility provide that a lawyer shall refuse employment or withdraw from a case if the lawyer "knows or it is obvious that he or a lawyer in his firm ought to be called as a witness. . . ."

tic" effect such that the whole is greater than the sum of the parts. *Kearney & Trecker Corp. v. Cincinnati Milacron, Inc.*, 562 F.2d 365, 370 (6th Cir.1977). The evidence produced at trial shows that the trucking industry had long sought a method to temporarily engage an auxiliary axle. Various attempts to provide such a device proved impracticable or inefficient. Turner's design, incorporating elements which were already in use in axle suspensions, provided a simple, efficient, and complete solution to the problems encountered in earlier attempts. The use of upwardly biased leaf springs provided the necessary lift while giving the unit lateral stability when the wheels were engaged with the road. The combination of the airbags and leaf springs provided what the industry refers to as an "air ride," a preferred form of shock absorption. Because the system could be installed without additional elements such as a torsion bar, hydraulic springs, or coiled springs, running across the width of the vehicle, the system could be used in the front of or in the rear of a drive or power axle. We agree with the district court that the Turner patent achieved synergism in a manner that was not obvious to someone skilled in the pertinent art. This holding is further supported by the immediate commercial success of the Turner design and its clear satisfaction of long felt needs in the industry. *Graham v. John Deere*, 383 U.S. at 17-18, 86 S.Ct. at 693-694. Therefore, we affirm the holding that the Turner patent is valid.

B. Estoppel and Laches

In *TWM Mfg. Co. v. Dura Corp.*, 592 F.2d 346 (6th Cir.1979), this court reversed the district court's award of summary judgment to Dura on the grounds of laches and estoppel. This court ruled that TWM's delay of more than six years in filing suit would bar any recovery only if the requirements of laches and estoppel were both satisfied. Although the delay created a presumption of laches, TWM could defeat the bar by: (1) rebutting the presumption of prejudice; (2) showing a good excuse for the delay; or (3) showing that Dura had "engaged in particularly egregious conduct which would

change the equities in plaintiff's favor." 592 F.2d at 349. TWM's allegations that Dura plagiarized the patent, if proven at trial, would demonstrate egregious behavior and defeat Dura's claim of laches. *Id.* Laches alone, moreover, would bar recovery only of damages caused by the infringement before TWM filed suit. To defeat prospective relief, Dura must prove the elements of equitable estoppel. Estoppel requires, in addition to a showing of laches, "representations or conduct which justify an inference of abandonment of the patent claims." Mere silence is not sufficient; the defendant must show "misrepresentation, affirmative acts of misconduct, or intentionally misleading silence by the plaintiff." *Id.* at 350.

On remand, the district court held that neither laches nor estoppel would preclude recovery by TWM. The court found "sufficient evidence of plagiarism which is egregious in this case" to defeat the bar of laches. With regard to estoppel, the court found no evidence of misconduct, misleading silence, or misrepresentations by TWM. On appeal, Dura argues that the court erred in making these determinations because the court improperly placed on Dura the burden of showing that it had not plagiarized the patent. The court, drawing support from a doctrine of copyright law, held that TWM's proof that Dura had access to the patent and that it had contemporaneously produced an infringing device, shifted the burden to Dura to prove the independent development of the 1400 system. Dura, the court found, failed to carry this burden.

Laches, an equitable doctrine, is left to the sound discretion of the trial judge. *Potash Co. v. Int'l Minerals & Chem. Corp.*, 213 F.2d 153, 155 (10th Cir. 1954). The doctrine's provenance is the conscience of the Chancellor, and its application is not governed by the rules of the common law. Within this wide scope, we must determine whether the trial court abused its discretion by finding the equities in TWM's favor because Dura could not rebut evidence of plagiarism.

Plagiarism, or the infringement of a common law copyright, may be shown by a finding of access taken together with the elements of similarity. *See Smith v. Little, Brown & Co.*, 360

F.2d 928, 930 (2d Cir.1966); *Herwitz v. National B'dcasting Sys.*, 210 F.Supp. 231, 235 (S.D.N.Y.1962). This rule avoids the unfairness that would result from requiring the plaintiff to prove the actual act of appropriating protected material. Direct evidence of copying is rarely, if ever, available. *Novelty Textile Mills v. Joan Fabrics Corp.*, 558 F.2d 1090, 1092 (2d Cir.1977). The appeal of this reasoning is found in *Graver Tank v. Linde Air Prod. Co.*, 339 U.S. 605, 70 S.Ct. 854, 94 L.Ed. 1097 (1950), a decision cited by the district court in this case. In *Graver Tank*, the Supreme Court affirmed a lower court's finding of patent infringement based on the doctrine of equivalents. This doctrine provides that a device can infringe a nonidentical device if it performs substantially the same function in substantially the same way. If the defendant can provide no adequate explanation of the independent development of the allegedly infringing device, "the trial court could properly infer that the accused [device] is not the result of experimination or invention." 339 U.S. at 612, 70 S.Ct. at 858.

We cannot hold that the trial court abused its discretion in ruling that evidence of Dura's plagiarism barred Dura from raising the equitable defense of laches. The court's shifting of the burden of proof to Dura was reasonable in light of the difficulties of proving the actual act of copying. The court's refusal to accept Dura's version of the development of the 1400 suspension is fully supported by the record.

We also affirm the district court's holding that Dura failed to prove the elements of equitable estoppel. Dura's failure to show laches also defeats its claim of equitable estoppel. Dura, moreover, cites on appeal no evidence that contravenes the lower court's finding that Turner had not engaged in intentionally misleading silence or affirmative misrepresentation. Therefore, we hold that neither laches nor estoppel bars TWM's recovery of damages in this case.

III.

A. Violation of the Injunction

The district court's injunction prohibited Dura from "directly or indirectly making, using or selling or causing to be

made" any device employing the patented features of the Turner suspension. The order further enjoined Dura

> (d) From actively inducing and/or contributing to the infringement of said patent by supplying to others the Model 1400 Series suspension or any material part thereof especial [*sic*] made or especially adopted [*sic*] for use in the Model 1400 Series suspension which part is not a staple article or commodity of commerce suitable for substantial non-infringing use.

This provision was taken from 35 U.S.C. § 271(c) which defines contributory infringement. For purposes of this appeal, we treat the scope of the injunction as coextensive with that of 35 U.S.C. § 271(c).[6]

Dura sold feather springs, brackets and other repair parts for its 1400 suspension after the injunction was entered on June 1, 1981. These sales continued until the court found Dura in criminal contempt for violating the injunction on March 5, 1982.[7] Dura does not deny that its sale of spare parts was contrary to the terms of the injunction, but it argues that the sale of these parts was nevertheless protected under *Aro Manufacturing Co. v. Convertible Top Co.*, 365 U.S. 336, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961) [hereinafter cited as *Aro I*] and *Aro Manufacturing Co. v. Convertible Top Co.*, 377 U.S. 476, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964) [hereinafter cited as *Aro II*].

In *Aro I*, a licensee of a combination patent for a convertible automobile top sought to enjoin Aro from producing and

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6. 35 U.S.C. § 271(c) states:

> Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

7 It is undisputed that the spare parts in issue were non-staple articles especially made or adapted for the 1400 series suspension.

selling an unpatented component—the fabric—for repair of installed tops. The Court held that Aro could not be guilty of contributory infringement under 35 U.S.C. § 271(c) unless there was a direct infringement of the patent. Replacement of worn tops, the Court ruled, was a permissible repair of property, not a reconstruction of the combination that would directly infringe the patent. Thus, the manufacture and sale of the replacement fabric did not contribute to a direct infringement of the combination patent. 365 U.S. at 341-45, 81 S.Ct. at 602-04.

The Court's holding in *Aro I* was narrowed by *Aro II* in a respect crucial to Dura's appeal. In *Aro II* the Court held Aro liable for selling fabric to any customer who owned a convertible manufactured by a company that was unlicensed to produce the convertible tops. Because the manufacture of these tops was unauthorized, the customers' use and even the repair of the structures directly infringed the patent. In *Aro II*, "as was not the case in *Aro I*, the direct infringement by the car owners that is a prerequisite to contributory infringement by Aro was unquestionably established." 377 U.S. at 486, 84 S.Ct. at 1532.

Because Dura never acquired a license to the Turner patent, *Aro II* would seem to dictate that Dura's sale of non-staple repair parts to owners of the 1400 series suspension was contributory infringement. Dura attempts to escape this conclusion by arguing that owners of its infringing suspensions received an implied license from TWM to use those devices. Dura relies on *Wagner Sign Service, Inc. v. Midwest News Reel Theatres, Inc.*, 119 F.2d 929 (7th Cir. 1941) to argue that because the accounting order and supersedeas bond assured TWM of compensation for infringing units sold before June 1, 1981, owners of those units had received a constructive license to use and repair the suspensions.

We reject Dura's reasoning that its customers were licensed to use and repair the infringing suspensions. TWM has entered into no agreement with Dura releasing it or its customers from claims for infringement. Except for the supersedeas bond, TWM is in the same position as the patentee in *Union Tool Co.*

v. Wilson, 259 U.S. 107, 42 S.Ct. 427, 66 L.Ed. 848 (1922). Wilson, a patentee who had been awarded an injunction and an accounting of damages, brought a contempt action against the original defendant for violating the injunction by selling spare parts. The Court upheld the contempt finding, ruling that Wilson had received no compensation which would license the use of the devices produced by the infringer.

Even if we were prepared to following the general ruling in *Wagner Sign*, this case is clearly distinguishable. There, the court held that a "supersedeas bond which assures the payment of all profits and damages" was equivalent to actual compensation. Yet the court noted "that no question is raised on the record but that the bond is ample to protect the plaintiff in any judgment." 119 F.2d at 930 n. 1. Dura's claim that the supersedeas bond assures TWM of compensation borders on the disingenuous. TWM asserts, and it is not disputed by Dura, that the $5,000 bond is far from sufficient to cover the expected award from the accounting. Dura, it should also be noted, never attempted to clarify to this court or to the district court its intention to treat the order a supersedeas bond as constituting a license. In its successful application to this court to stay the accounting, Dura suggested a $5,000 bond to cover the "nominal damages" resulting from the delay in the accounting. The amount of the bond should cover only these damages, Dura argued to this court, not the potential damages resulting from years of infringement. A bond established on such grounds provided TWM no assurance that it would recover damages as determined by the accounting. Because Dura failed to establish that the owners of the 1400 suspensions were licensed by TWM, Dura's sale of the spare parts was contributory infringement in violation of the terms of the June 1, 1981 injunction.

B. Criminal Contempt

Dura contends that the court's finding of criminal contempt violated due process and Rule 42(b) of the Federal Rules of

Criminal Procedure.[8] Dura argues that it received improper notice of the criminal charges and that the court failed to follow the procedures of Rule 42(b) in the prosecution of the contempt charge.[9] Dura also maintains that the evidence is insufficient to support a finding of criminal contempt.

TWM's motion and brief for a finding of contempt were served on Dura by first class mail on February 17, 1982. An accompanying Notice of Hearing stated that the motion would be heard on March 5, 1982. In the motion, TWM sought a decree holding Dura in contempt, "both civil and criminal," for violation of the June 1, 1981 injunction. TWM alleged that "Dura has been flagrantly violating the Injunction by continuously selling on numerous occasions, essential parts of the infringing '1400' since June 1, 1981." The brief asserted that "Dura and Kidde's willful violation of this Court's Injunction is shown beyond a reasonable doubt by the attached affidavit evidence." The attached affidavits included copies of invoices

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8 The district court denominated the penalty as one for criminal contempt. We recognize, however, that a lower court's characterization of contempt proceedings is not determinative for purposes of appeal. *Lewis v. Baune*, 534 F.2d 1115, 1119 (5th Cir. 1976); *United States v. Powers*, 629 F.2d 619, 626 (9th Cir. 1980). Here, however, since there was a $10,000 fine payable to the government, there is no question that the proceedings were criminal in nature. *Richmond Black Police Officers Asso. v. Richmond*, 548 F.2d 123, 125 (4th Cir. 1977); *Douglass v. First Nat'l Realty Corp.*, 543 F.2d 894, 898 (D.C.Cir. 1976). The fine in this case was punitive, not remedial, and was assessed to vindicate the authority of the court. *See In Re Timmons*, 607 F.2d 120, 124 (5th Cir. 1979); *Carbon Fuel Co. v. United Mine Workers*, 517 F.2d 1348, 1349 (4th Cir. 1975).

9 Rule 42(b) provides in part:

> A criminal contempt except as provided in subdivision (a) of this rule shall be prosecuted on notice. The notice shall state the time and place of hearing, allowing a reasonable time for the preparation of the defense, and shall state the essential facts constituting the criminal contempt charged and describe it as such. The notice shall be given orally by the judge in open court in the presence of the defendant or, on application of the United States attorney or of an attorney appointed by the court for that purpose, by an order to show cause or an order of arrest. The defendant is entitled to a trial by jury in any case in which an act of Congress so provides. . .

and packing lists showing that Benson Truck Bodies had ordered and received various repair parts for the 1400 suspension since June 1, 1981. In another affidavit, a sales manager for TWM stated that he had visited two customers of Dura who had ordered repair parts since the injunction was issued. In a supplement to its motion for a contempt decree dated March 3, 1982, TWM provided additional evidence that at least one other dealer had ordered and received repair parts and that Dura was advertising repair parts for sale at discount prices.

In its reply to the motion, Dura denied that supplying the repair parts was prohibited by the injunction. Dura also argued that "all those units out in the field are now under an implied license" because of the district court's judgment and award of an accounting. Dura asserted that the motion raised factual issues which could not be "treated summarily on a motion for contempt." Dura cited as an example of such a substantial issue the question of whether the parts alleged to have been sold were non-staple articles of commerce.

Attached to the reply was the affidavit of William S. Locke, president of Dura's division that manufactured the 1400 suspension. Locke stated his intention to comply in good faith with the injunction and asserted that the sale of repair parts was made pursuant to advice from Dura's patent attorney, James Van Santen. In a June 4, 1981 letter to Dura's management, which was also attached to the affidavit, Van Santen outlined his views on *Aro I* and *Aro II* and concluded that Dura was entitled to perform "permissible repair." Also attached to Dura's reply was an affidavit from the division's sales manager affirming that no complete suspensions had been sold and that "any sales of service parts have been for repair or replacement of existing 1400 suspensions."

At the March 5 hearing, the trial judge initially expressed the view that determination of the contempt motion would require a "testimonial hearing." The Judge, however, was assured by counsel for TWM that such a hearing was unneccessary because Dura had admitted to a "willful violation of the injunction" by the affidavits attached to its reply. The court then

proceeded to make a determination on the basis of the affidavits and arguments, to which Dura did not, at that time, object. The court found that springs and frame brackets for the 1400 had been sold since the injunction was entered. This finding was not contested by Dura. At the hearing, Dura limited its legal defense to its theory that the sale of repair parts was protected under *Aro I* and *Aro II*, and that, in any event, it had received an implied license to the patent.

We find no merit in Dura's argument that the court's procedures violated due process. Due process requires that the contemnor receive "reasonable notice of the specific charges and opportunity to be heard on his own behalf." *Taylor v. Hayes*, 418 U.S. 488, 499, 94 S.Ct. 2697, 2703, 41 L.Ed.2d 897 (1973). The motion filed by TWM and the attached affidavits alerted Dura to the evidence and the charges that would be presented at the contempt hearing. *See Yates v. United States*, 316 F.2d 718, 723 (10th Cir. 1963). At the hearing, Dura had an opportunity to contest TWM's allegations, but elected instead to rely on its legal defenses. This hearing clearly satisfied due process.

Dura maintains that the proceedings did not satisfy the requirements of Rule 42(b) because it never received a notice specifying what form of contempt would be considered. Dura also argues that it was never given formal notice of the charge by U.S. attorney or appointed prosecutor as specified in the Rule. These failures, Dura argues, prejudiced its defense because, had the court complied with the Rule, Dura "could have requested a trial by jury" and "could have had witnesses at the hearing to testify regarding Dura's good faith in complying with the court's June 1st order."

Reversal of a conviction of criminal contempt is not the unavoidable result of a failure to comply precisely with the provisions of Rule 42(b). In *United States v. United Mine Workers*, 330 U.S. 258, 67 S.Ct. 677, 91 L.Ed. 884 (1947) the Supreme Court held that reversible error occurs only where the noncompliance produced substantial prejudice. Although Dura now argues that the improper notice hindered its defense on the charge of willfulness, Dura failed to make objections about

the form of notice at the hearing.[10] We also seriously doubt that Dura was entitled to a jury trial.[11] Yet because we hold that the evidence does not support a finding of criminal contempt, we do not reach a determination of whether the court's failure to comply with all aspects of Rule 42(b) substantially prejudiced Dura.

In criminal contempt, willful disobedience must be proved beyond a reasonable doubt. *United States v. Powers*, 629 F.2d 619, 626 N. 6 (9th Cir.1980); *United States v. Greyhound Corp.*, 508 F.2d 529, 531 (7th Cir.1974). Willfulness, for this purpose, implies a deliberate or intended violation, as distinguished from an accidental, inadvertent or negligent violation. *Falstaff Brewing Corp. v. Miller Brewing Co.*, 702 F.2d 770, 782 (9th Cir.1983). Applying this standard and viewing the evidence in the light most favorable to the court's holding, *see In re Joyce*, 506 F.2d 373, 376 (5th Cir.1975), we hold that there is insufficient evidence to sustain the order of criminal contempt.

Evidence produced at the hearing shows that Dura relied on the advice of its patent attorney, Van Santen, as expressed in his letter of June 4, 1981. In that letter, Van Santen recited the holding of *Aro I* and explained that "the repair or replacement of the worn out, damaged or destroyed part is but an exercise of the right to 'give duration to that which [a customer] owns,

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10 The Second Circuit has held that a contemnor may not raise on appeal the inadequacy of a contempt notice unless objection was made before the district court. *In re Liberatore*, 574 F.2d 78, 82 (2d Cir. 1978). *See also Yates v. United States*, 316 F.2d 718, 724-25 (10th Cir. 1963) (contemnor waived right to a plenary hearing by consenting to submit case to the court upon an agreed statement of facts).

11 In *United States v. R.L. Polk & Co.*, 438 F.2d 377 (6th Cir. 1971), this court held that because a fine of more than $500 is defined as a non-petty offense under 18 U.S.C. § 1, a fine of $35,000 imposed on a corporation for criminal contempt entitled the corporation to a jury trial. This reasoning can no longer stand in light of *Muniz v. Hoffman*, 422 U.S. 454, 95 S.Ct. 2178, 45 L.Ed.2d 319 (1975) which held that a union had no right to a jury trial for a $10,000 fine for criminal contempt.

or has a right to use as a whole.' " With regard to *Aro II*, Van Santen advised:

> Persons who purchased cars from Ford, which infringed the patent by manufacturing and selling them with the convertible tops structures, likewise were held to be infringers by using or repairing the top structures since the supplier of the replacement fabric for use in such infringing repair was a contributory infringer under Section 271(c) of the Patent Code, Ford being a nonlicensee at the time.
>
> Analogizing to your situation, it is as if a trucker with a lift would come in and you to replace the lift with a Model 1400.
>
> We are of the opinion you will be able to do "permissible repair" within those guidelines.

Notably absent from this advice is any explanation of why Dura was not in the same position as the supplier of replacement fabric in *Aro II* or why the fabric replacement in that case is analogous to the complete installation of an infringing system in this case. Also missing is any reference to posting a supersedeas bond to purchase an implied license, the linchpin of Dura's argument on appeal.

Although we have serious questions about the advice given Dura, there is no evidence to suggest that Van Santen's advice was not offered or was not used in good faith. In *Proudfit Loose Leaf Binder Co. v. Kalamazoo Loose Leaf Binder Co.*, 230 F. 120 (6th Cir. 1916), this court reversed a criminal contempt holding based on the violation of a court's injunction prohibiting further infringement of the plaintiff's patent. This court held that it is not a criminal contempt to violate such an order if the act is grounded on a "good faith belief that the order is being properly interpreted . . . even though [the act] is actuated by a desire to find a lawful means of avoiding the infringement. . . ." 230 F. at 132. This court held that the evidence was insufficient to sustain a judgment of willful violation in light of the defendant's reliance "upon the advice of reputable counsel that the change made [in the infringing

product] avoided infringement, and was strictly within a proper interpretation of the decree." *Id.* at 134. In this case, the record shows only that Locke relied on Van Santen's advice in his decision to ship parts for the 1400 suspension. There is no evidence of Locke's understanding of the legal arguments in the opinion letter nor is there any evidence regarding Van Santen's motives in offering the advice. Thus, we cannot sustain the court's holding that Dura willfully disobeyed the court's order beyond a reasonable doubt. We also reverse the award of attorney's fees based on this holding.[12]

Willfulness, however, is not an element of civil contempt. As our court noted in *Proudfit*, "advice of counsel and good faith conduct do not relieve from liability for a civil contempt, although they may affect the extent of the penalty." *Id.* at 132. Although civil contempt may serve incidentally to vindicate the court's authority, its primary purposes are to compel obedience to a court order and compensate for injuries caused by non-compliance. *McCrone v. United States*, 307 U.S. 61, 64, 59 S.Ct. 685, 686, 83 L.Ed. 1108 (1939); *Falstaff Brewing Corp.*, 702 F.2d at 778. The award of attorney's fees and expenses to a successful movant may be appropriate in a civil contempt proceeding. *See Chas. Pfizer & Co. v. Davis-Edwards Pharmacal Corp.*, 385 F.2d 533, 538 (2d Cir. 1967). Accordingly, we must remand this case for further consideration of civil contempt consequences not inconsistent with this opinion.

The judgment of the district court is AFFIRMED in part, REVERSED in part, and REMANDED for proceedings not inconsistent with this opinion.

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12 Our holding should not, of course, be interpreted to permit avoidance of criminal contempt as a matter of law simply by a showing of reliance on advice of counsel. On the other hand, if counsel's advice is so facially unreasonable as to support a finding of bad faith, a holding of criminal contempt may be proper without further evidence of bad faith. But where, as in this case, counsel's advice is confusing and incorrect and by itself cannot support a finding of bad faith on the part of contemnor, additional evidence of the intention of counsel and contemnor is necessary to sustain a holding of criminal contempt.

Report of Special Master Awarding $31,288,496.00 in Damages for Patent Infringement

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

Civil No. 74-72852

TWM MANUFACTURING COMPANY, INC.,

Plaintiff,

vs.

DURA CORPORATION and KIDDE, INC.,

Defendants.

REPORT OF SPECIAL MASTER
PURSUANT TO F.R.C.P. 53

October 29, 1984

TABLE OF CONTENTS

PAGE

I. FACTS 00

II. COMPENSATORY DAMAGES 00

A. Reasonable Royalty 00

1. Anticipated Gross Profit 00

2. The Tektronix Analysis 00

3. Acceptable Non-Infringing Alternatives .. 00

4. Wheels and Axles 00

5. Per Unit Royalty 00

B. Diminished Sale Prices and Special Discounts. 00

C. Lost Profits 00

III. PREJUDGMENT INTEREST 00

IV. ENHANCED DAMAGES 00

V. COMPUTATION OF DAMAGES 00

VI. CONCLUSION 00

VII. APPENDIX 00

The following abbreviations are used throughout:

Vol._____	Transcript of Accounting Phase (See Appendix 1)
PX	Plaintiff's Trial Exhibit
DX	Defendants' Trial Exhibit

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

Civil No. 74-72852

HON. HORACE GILMORE

TWM MANUFACTURING COMPANY, INC.,

Plaintiffs,

vs.

DURA CORPORATION and KIDDE, INC.,

Defendants.

I.

FACTS

The plaintiff, TWM Manufacturing Company, Inc., [hereinafter called TWM] is the owner of the Turner patent, No. 3,285,621, issued on November 15, 1966. The plaintiff filed suit in 1973, six years after the patent was issued and the defendant, Dura Corporation, was given formal notice that its similar airbag suspension device, the 1400, infringed the Turner patent. The defendant filed a Motion for Summary Judgment, based on the theories of laches and estoppel, which was granted by the District Court. The plaintiff appealed and the Sixth Circuit Court of Appeals, finding that the issues of laches and estoppel should be disposed of by a trial on the merits rather than by a Motion for Summary Judgment, remanded the case. *TWM Manufacturing Co. v. Dura Corp.*, 592 F.2d 346, 349 (6th Cir. 1979), [hereinafter *TWM v. Dura* (I)].

After a non-jury trial, the district court delivered its opinion on May 21, 1981 upholding the Turner patent and holding that Dura had plagiarized and willfully infringed the patent, negating any claim Dura had for asserting the defense of laches, in accordance with the guidelines set forth by the Sixth Circuit Court of Appeals in *TWM v. Dura* (I), *supra*. Estoppel was specifically found not to exist. The Sixth Circuit Court of Appeals affirmed the findings of the district court, including the findings of laches and estoppel, *TWM Manufacturing Co. v. Dura Corp.*, 722 F.2d 1261 (6th Cir. 1983) [hereinafter *TWM v. Dura* (III)]. On January 18, 1984, in accordance with conventional practice and pursuant to 28 U.S.C. § 636(b)(2) and Fed. R. Civ. P. 53, Judge Horace Gilmore ordered that a hearing be held by this Magistrate on the accounting phase of this case. Pursuant to the Judge's order, a hearing was conducted consuming twenty three (23) trial days between May 1, 1984 and June 14, 1984. This Report and Recommendation constitutes the findings of fact and conclusions of law of this Magistrate.

II.

COMPENSATORY DAMAGES

A. Reasonable Royalty

Both the plaintiff and defendant agree that the plaintiff is entitled to recover damages from defendants, Kidde, Inc. and Dura Corporation [hereinafter called Dura] for Dura's infringement of the Turner patent pursuant to 35 U.S.C. § 284. In assessing damages adequate to compensate for the infringement, as specified in § 284, the primary question is, how much has the patent holder suffered by the infringement and if the infringer had not infringed, how much would the patent holder have been able to earn. *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964). The assessment of any damage must take into account the lower limitation placed on such damages by 35 U.S.C. § 284, "but in no event less than a reasonable royalty for the use made in the invention by

the infringer." The assessment of any damage must also take into account that portion of § 284 which provides for "interest and cost as fixed by the court."

Both parties agree that the defendant is entitled to a reasonable royalty for the infringement but disagree adamently on how this court is to compute this amount. To determine a reasonable royalty in the absence of an established or customary royalty, the parties agree that the court direct its inquiry to the "critical period," after the patent issues and before the infringement begins, during which a willing buyer and willing seller would have entered into a royalty-bearing license. The critical period in this case is that period during which a willing buyer and willing seller would have entered into a license under the Turner patent some time between the issuance of the Turner patent on November 15, 1966 and the commencement of Dura's infringement shortly after February 23, 1967. (PX2; PX1A, 380; Vol. IX 59-60; Vol. XVII, 66-67, 98-99).

The plaintiff contends that an appropriate analytical approach to determine the reasonable royalty in this case, under the willing buyer/selling technique, is the approach used in two cases: *Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers, Inc.*, 446 F.2d 295 (2nd Cir.), *cert. denied*, 404 U.S. 870 (1971), and *Tektronix, Inc. v. United States*, 552 F.2d 343 (Ct. Cl. 1977). The plaintiff contends that the approach used in *Tektronix*, *supra*, and *Georgia-Pacific*, *supra*, provides a realistic basis on which to flush out, in reasonable terms, the fictional willing buyer/willing seller negotiation. It contends that such an approach uses Dura's own real life projection as well as established industry figures from the critical period. The defendant, however, rejects the *Georgia-Pacific* and *Tektronix* analysis as inapplicable to the instant case and wishes to substitute a different analysis resulting in a per unit royalty in this case.

For the reasons stated below this Magistrate agrees that the analytical approach cited in *Georgia-Pacific*, *supra*, and *Tektronix*, *supra*, is appropriate to the case at bar. The Magistrate further agrees that during the critical period, given the record in this case, a willing buyer and willing seller would

have entered into a royalty of at least 30% of the invoice price of the infringing device. This analytical approach takes the anticipated net profit realized by the infringer from sales of the infringing device and subtracts the usual or acceptable net profit of the infringer. Then the result is analyzed to be sure it constitutes adequate compensation. This approach is imminently fair to Dura since it awards Dura, the infringer, a normally acceptable profit on the lift suspension, while giving the remainder as a royalty to the patentee.

The plaintiff states that according to recognized customs and practices in the licensing of patents generally, as well as in the licensing of technology in the truck parts and accessory industry specifically, a willing buyer and willing seller, during the critical period, would have entered into a license under the Turner patent bearing a royalty of at least 30% of the invoice sales price of the Dura 1400 suspension. (PX 15; PX 31; Vol. IX, 92-111; Vol. XI, 60-100). The total dollar volume of the invoiced sale prices of Dura's infringing suspension system during the period of recoverable infringement in this case was $20,859,889. This amount constitutes the royalty base (PX 16A, Sched. A-1).

During the critical period, and before, Dura's top management anticipated and projected a gross profit averaging 52.7% from sales of its infringing model suspension. (PX 1A, 186, 190, 197, 273, 280; PX 23, Tab-22; Vol. IX 69-79). A customary and regularly accepted gross profit for a truck part or accessory, such as a lift axle, in the trucking industry during the critical period was 22.5%. (Vol. IX, 79-80). A conventional and normally allocated fixed overhead expense for a lift axle suspension, like the Turner invention in 1966-1967 truck parts industry, would have been 10% to 15%. (Vol. IX 52-53). Actual calculations done by both TWM's and Dura's accountants, using numbers from outside the critical period, were consistent with the 10% - 15% fixed overhead expense and reinforced its efficacy during the critical period (PX 31; PX 23, Tab-12, 5; Vol. XI, 75-76, 82-85, 87, 90-91).

In order to get to the anticipated "net profit" of Dura, one takes the anticipated "gross profit", as that term was used by

Dura's management, and subtracts the direct (fixed) expenses. (PX 31; Vol. XI, 82-85; Vol. IX, 52, 186). In order to find a typically acceptable net profit for a lift axle suspension during the critical period, one takes the 22.5% gross profit figure and subtracts 10 to 15%, leaving a range of 7.5% to 12.5%, using only numbers from the critical period. (PX 31; Vol. XI, 88, 90; Vol IX, 52-186). TWM's net profit for its three most successful years was 6.56%; and such a net profit would have been acceptable to any lift axle manufacturer during the critical period (PX 23, Tab-14; Vol. III, 139). Using all of the data, then, the acceptable net profit in this industry during the critical period would be from 6.56% to 12.5% (PX 31).

The defendant argues that the plaintiff has no factual basis to support these conclusions, rejects the 30% royalty put forward by the plaintiff, and urges this Court to adopt a per unit price on the infringing 1400 unit.

1. *Anticipated Gross Profit*

The defendant vehemently argues that the anticipated gross profits figure as based on PX 1A is inaccurate. The anticipated "gross profit" reflected in the exhibit is nothing more than an estimated gross profit, according to the defendant, since Dura did not even attempt to estimate costs until September 19, 1966 (PX 18, Tab-2). The defendant argues that the underlying documents used to determine the anticipated gross profits are not reliable because they include the estimates of overzealous sales people and should only be considered as first cut-off figures. Moreover the documents utilized by the plaintiff from Dura Corporation do not include the high cost of tooling and do not specify which type of gross profit is being considered. The plaintiff vehemently disagrees: "In the face of an infringer's own projections made during the "critical period" regarding the profit to be enjoyed from his infringement, his actual profits realized, even shortly after he begins the infringement, are of little or no help in arriving at a reasonable royalty. This is particularly true when through lack of the infringer's own documents, such profits cannot be ascertained with any reasonable degree of certainty." (Plaintiff's Proposed

Conclusions of Law, No. 23). This Magistrate agrees with the plaintiff's contentions.

The defendant's initial projections concerning anticipated gross profits would have been paramount in the initial licensing negotiations. The defendant used these figures in deciding the feasibility of the manufacture and marketing of the infringing device. Based on these figures the defendant made a calculated business decision—to infringe the Turner patent. It cannot now reject these figures as inaccurate to thwart the plaintiff's claim for a reasonable royalty.

2. *The Tektronix Analysis*

The defendant also rejects the 30% royalty rate as determined by the plaintiff because the *Tektronix* analysis used by the plaintiff's expert witness, Professor Kayton,[1] is inapplicable to the facts of this case. The defendant posits that the *Tektronix* analysis is inapplicable because: a) Turner, the inventor of the suspension, did not want to maintain a monopoly and wished to license the device, b) he had no long production history of this infringed device, and c) Turner and Dura Corporation were not comparable negotiating parties.

It is true that the plaintiff in *Tektronix* wished to maintain a monopoly and did not want to license the device, had a long product history with the infringed device, and was a large corporation. However, there is nothing in *Tektronix* that limits its methodology to only these types of situations. The *Tektronix* methodology, at least to this Magistrate, should apply to patent infringement cases whenever one must resort to the willing buyer/willing seller methodology. Rather than being ironclade, it is a flexible concept that allows the court to consider all the facts and determine a reasonable royalty based on what the parties would have done had real negotiations occurred.

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1. The plaintiff's witness, Al Smith and Professor Kayton, utilized a "willing buyer/willing seller" concept to analyze the hypothetical negotiations in this case. Mr. Smith analyzes the negotiations from a businessman's prospective. Professor Kayton adopts the approach of modern case law that incorporates the customs practices and procedures used for years in licensing negotiations.

3. *Acceptable Non-infringing Alternatives*

The defendants further contend that the numerous acceptable non-infringing alternatives to the Turner invention substantially negate the plaintiff's claim for a 30% royalty rate. In assessing whether or not there exist acceptable non-infringing alternatives, either for reasonable royalty or lost profit purposes, it is important to look at the nature of the patented invention and why it was held valid over the prior art, as well as to look at the behavior of the infringer who is now asserting reduced damages based upon its allegations of the existence of acceptable substitutes.[2] *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978); *Central Soya Co. v. George A. Hormel & Co.*, 723 F.2d 1573 (Fed. Cir. 1983); *The Gyromat Corp. v. Champions Spark Plug Co.*, Nos. 735 F.2d 549 (Fed. Cir. 1984).

Indicative of the lack of an acceptable non-infringing alternative are Dura's own acts of: 1) failing to come up with its own device, despite the availability of other suspensions used now by Dura as "acceptable"; 2) choosing to proceed to infringe, despite having expended only minimal amounts of money by the time of the notice of infringement; 3) willful infringement of the patent; 4) failed attempts after infringement to successfully market other currently "acceptable" designs; 5) violating the court's injunction in 1981; and 6) going out of business after enforcement of the injunction. *Panduit, supra*; *Gyromat, supra*. Additional proof exists in the immediate commercial success of the Turner invention despite the existence of several of the designs urged as substitutes by Dura, the satisfaction by Turner of a long-felt need not satisfied by these other designs, and Turner's synergism over these other designs. *Panduit supra*; *Central Soya, supra*. Dura's advertising and in-house memorandum during the critical period and shortly thereafter are also probative evidence to consider in determining the existence of an acceptable alternative. As the court stated in *Panduit, supra*, at 1160:

---

2. The existence of non-infringing alternatives for loss profit purposes is discussed, *infra*, Part C.

> The advantages proclaimed in these advertisements carry more forceful recognition of the value of the patent infringed than belated denial of its value rejects. (Citation omitted).

There were no acceptable non-infringing alternatives to the Turner invention that existed during the critical period that would have an affect on the establishment of royalty rates as assessed here. The Kulyk device does not constitute an acceptable non-infringing alternative to the Turner invention and would have had no effect upon the negotiations during the critical period between the willing buyer/willing seller. (Vol. XIX, 35). The Kulyk patent and device shown (U.S. Patent No. 1 3,093,388) (PX 28) are, as a matter of law in this case, merely the problems which Mr. Turner's inventions overcame. The Kulyk patent device is, therefore, not an acceptable non-infringing alternative. Furthermore, the claims to the Kulyk patent are directed to a beam type suspension which is distinct from the Turner invention. The Turner invention as a matter of law does not infringe the Kulyk's patent. (PX 28; Vol. XIX, 4-30); *TWM Manufacturing Co. v. Dura Corp.*, 213 U.S.P.Q. 423 (E.D. Mich. 1981) [hereinafter *TWM v. Dura* (II)]. As a matter of law, there were no acceptable substitutes to the Turner invention available during the critical period. The devices that did exist during the critical period merely reflected the problems that Turner invention had overcome (PX 4).

The defendant finds significant other lift suspensions offered by various manufacturers during the entire accounting period. (Defendants' Post-Trial Brief on the Accounting Phase, 26-27, 110-118). This Magistrate agrees that there were other lift suspensions available throughout the accounting period. Numerous models were discussed during the accounting phase proceedings. Each model discussed has, or had, at least some of the beneficial characteristics of the Turner suspension; no one suspension, however, possessed *all* of the beneficial characteristics of the Turner suspension. (PX 4). Moreover, the mere fact that the plaintiff offered the Dura LM 3000 Lift Master and L 25 as non-infringing alternatives to the Turner invention

during the liability phase of these proceedings does not estop the assertion that these products are unacceptable alternatives for damage purposes. The plaintiff never contended that these models possessed all the beneficial characteristics of the Turner suspension.

The 30% royalty rate rather than causing the willing buyer to seek another alternative to the Turner suspension, would assure the buyer the profit he would have made on such an alternative, and would bring a greater chance of commercial success with the added value of the patented Turner invention. (PX 31).

The following chart is illustrative of the aforesaid analytical approach and is adopted as a finding fact by this Magistrate:

(See chart on following page)

The chart clearly shows that during the critical period the royalty could have been computed as high as 36%. The reasonable and just royalty as indicated by this chart and supported by this record is 30%. Given all of the factors in this case, a fair and adequate royalty for Dura to pay for its infringement is 30% of the total sales volume of the infringing 1400 suspension during the infringing period.

4. *Wheels and Axles*

Lastly, the defendant rejects the plaintiff's argument that the royalty base is the selling price of Dura's suspension, sold as a complete suspension with wheels and axles. This Magistrate agrees.

Any lift suspension is a mechanism for raising and lowering an axle to which the wheels are attached. There is nothing new and novel about either an axle or a wheel. Both Dura and Turner bought them from outside suppliers. Evidence at the trial clearly showed both Dura and TWM (Vol. IV, 42-43; DX, KK, LL, MM, NN, PP), as well as others in the industry (Vol. IV, 43-44; Vol. XVII, 24-25; Vol. XIX, 99-100), sold their suspensions separately, that is as a kit, as well as with wheels and axles. A customer was free to buy the suspension from one manufacturer and obtain wheels and axles elsewhere (Vol.

SYNOPSIS CHART OF ROYALTY RATE

Bold Nos. = from "Critical Period" only
Regular Nos. = from outside "Critical Period"

					All From Critical Period		*All From Critical Period*
(1)	Proposed Selling Price of Dura 1400	**100%**	**100%**	**100**	**100**	**100**	**100**
(2)	Expected Direct Costs of Dura 1400 (100-52.7)	**47.3**	47.3	**47.3**	**47.3**	47.3	**47.3**
(3)	Fixed Cost (e.g. overhead) of Dura 1400 52.7[1] (gross = profit)	**10.15**[2]	17.1[4]	**15.0**[2]	**10.15**[2]	17.1[4]	**15.0**[2]
(4)	Projected (net) Profit From 1400	**42.55**	35.6	**37.7**	**42.55**	35.6	**37.7**
(5)	Normal or Customary Profits on Products *Analogous* to 1400	6.6[3]	6.6[3]	6.6[3]	**12.35**[5]	5.4	**7.5**[5]
(6)	Residual Profit/Reasonable Royalty for *Turner* Invention	35.95	29.0	31.7	**30.2%**	30.2	**30.2%**

(1) Dura's Documents in critical period. PX1A, pgs. 186, 190, 197, 280. While the first 3 documents are a few months before the Turner patent issued, pg. 280, plus the lack of any other contradictory documents shows that these projections were carried forward into the critical period (V-XII, 99-100).

(2) Al Smith's Fixed Costs in critical period, i.e. 10-15%, also Jacobson's (V-IX, 52-53, 184-186; V-VIII, 85; (PX23, Tab 23).

(3) TWM's high 3 years that any mfgr. would have been satisfied with in 1966-7. (V-III, 139-141).

(4) Baker's variables instead of Jacobson's, (V-VIII, 85).

(5) Al Smith's testimony that a 22.5% *gross* profit was a recognized, acceptable, customary profit in the industry in 1966-67 for an accessory like a lift axle. (V-IX, 52-53, 95-96, 184-186).

XVII, 25), such as used parts dealers (Vol. IV, 113, Vol. VI, 21-22).

The royalty base to which TWM is entitled is the invoiced sales price of the 1400. The axles and wheels are the expected and normal work piece on which any suspension, lift or nonlift, acts. There is nothing novel about either the axle or the wheels of the Turner patent. In the real world the bargain is for the invention.

The plaintiff argues that trying to calculate out the wheels and axles as sold with the Dura 1400 to establish a base for the percentage royalty is an accounting nightmare. Plaintiff's Post-Trial Brief, 42. This Magistrate agrees. There are no records available from the defendant that establishes how each of the infringing units were sold. Price lists on the units, whether sold as "kits", "kits" with wheels and axles or how many were sold as "kits" or "kits" with wheels and axles are not contained in this record. Although the defendant presents a vigorous, and well placed, argument that the royalty should be apportioned between the patented suspension and the non-patented wheels and axles, it fails to present any evidence on how these items should be apportioned. Defendant's Post-Trial Brief on the Accounting Phase, 66-69. It further argues that this problem would not have occurred, absent a lawsuit, because a per unit royalty rate would have been negotiated between the parties. To establish a figure based on the defendant's theory of apportionment would be mere conjecture. *See Allen v. W.H. O. Alfalfa Milling Co.*, 272 F.2d 98 (10th Cir. 1959). The average per unit price established by the plaintiff on the infringing device is fair and just given the evidence at trial. (PX 16A, Sched. B). Therefore, the royalty base is $20,859,889. (PX 16A, Scheds. A-1, B)

5. *Per Unit Royalty*

The defendant argues that a per unit royalty, not a percentage royalty, would have been the result of negotiations between a willing buyer and willing seller. It submits that a $16 per unit royalty is reasonable based on the evidence presented at the accounting phase trial. (Defendants' Post Trial Brief on the Accounting Phase, 57-59). The defendant cites the 1969 agree-

ment between WDT (The Turner joint venture) and the plaintiff (DX CCC-2); the royalty given to Sam Verdi, the alleged inventor of the Dura 1400; and custom and procedure in the automobile industry for per unit royalties (Vol. XV, 223) as evidence that a per unit royalty would have been the result of negotiations between a willing buyer/willing seller.

Despite the 1969 WDT-TWM agreement a per unit royalty rate would not have been accepted by Turner and WDT. Mr. Turner and WDT agreed to the per unit rate because an essential feature of the agreement was that Turner was issued 5% of TWM stock. It is also apparent that Mr. Turner was aware that the infringing 1400 was being sold, he would soon be unable to find a buyer for his patent at any price and that litigation would be necessary to protect the patent. The WDT-TWM agreement is not, therefore, an example of an agreement between a willing buyer/willing seller. The royalty rate negotiation between Sam Verdi and Dura is also not indicative of a per unit royalty rate, as evidenced by the previous plagiarism findings at the trial level. *TWM v. Dura* II, *supra.*

B. DIMINISHED SALE PRICES AND SPECIAL DISCOUNTS

The plaintiff argues that it had to reduce its selling price by $100.00 per unit due to Dura's infringing competition. Stated another way, had it not been for Dura's infringement, TWM would have been able to increase its prices on each of its sales by at least this amount, which is $1,577,200.00 (PX 16A, Sched. A, A-2; Vol. III, 121-122). This is the amount TWM is entitled to recover as compensatory damages, due to the reduced selling price forced by Dura's infringement. TWM also had to sell, from time to time, its units at special discounts to meet pricing practices by the infringer, Dura. (PX 16A Sched. A, A-3; Vol. III, 123). Such discounts amounted to $468,682.00. TWM is entitled to $468,682.00 as compensatory damages due to Dura's special discounts, in addition to the aforementioned reduced selling price amount.

Dura opposes these concepts. (Defendants Proposed Findings of Fact on the Account Phase, Nos. 212-223). Evidence presented at trial by Mr. VanDenberg (Vol. III, 122-123; PX 11, 12) and Mr. Wilkoff (Vol. VI, 38, 42) proves that TWM was badly injured in its own sales by Dura's infringement. TWM had to sell its own units at an average of $100.00 per unit less in order to meet Dura's infringing competition. This is illustrated by PX 12 and the testimony of Messrs. Wilkoff and VanDenberg. Plaintiff also had to give a "special discount" to meet Dura's competitive special pricing practices. (PX 16A, Tab-A-3). The two amounts respectively are $1,577,200 and $468,682. Such damages are specifically provided for in the law. *Panduit, supra.*

As Mr. Wilkoff, the owner and President of TWM from its inception, stated:

> Q. Please tell us how you establish your prices?
>
> A. Well, we take the cost of our raw materials, we add in our expenses and we take 30% gross profit of which we were always trying to get, total that and then compare that to the page 1400 and then make our adjustments afterwards.
>
> Q. Is that from the very beginning?
>
> A. Right from the beginning.
>
> Q. Why did you set your prices after a comparison or adjudgment based on the 1400 suspension system?
>
> A. As far as I am concerned, they were our only competition.
>
> Q. Did you set your prices based upon any one else in this industry, any other lift suspension?
>
> A. No. The other didn't mean that much to us. It was the page 1400 that was hurting. (Vol. VI, 38).

Mr. VanDenberg testified as to the special discounts as follows:

> Q. Now this $100.00 is without the special discounts or the additional discounts?
>
> A. Correct.

Q. Do you have an opinion as to whether or not these additional special discounts caused a reduction in any way in the prices that TWM had to charge due to the 1400 suspension system?

A. Yes, sir, I do.

Q. And what is that opinion?

A. That is caused us to reduce even further. (Vol. III, 123).

Dura presented no rebuttal witnesses to this testimony at the accounting phase trial.

The defendants further argue that TWM did not narrow the price gap with other suspensions after the injuction. TWM however did raise its price after the injunction but could do no more when after 14 years. Its prices and pricing practices had been dictated by Dura's infringement. The patent expired and TWM no longer enjoyed the protection of a property right. It can no longer raise prices without impunity or without inviting legal plagiarism. TWM is clearly entitled to its claims of reduced pricing and discounts given its own sales prices. *Panduit, supra.*

C. LOST PROFITS

If Dura had not infringed the Turner patent by selling its 1400 suspension system, TWM would have had an increase in its sales volume between June 1, 1973 and May 21, 1981 at least equal to the sale volume of Dura's infringing 1400 suspension system over this period of time. (Vol. II, 125). Data presented by TWM at trial, and uncontested by Dura, shows that after the injunction of this Court on May 21, 1981, TWM's sales volume increased by an amount slightly greater than the projected sum of the two companies' sales volume had Dura's infringement continued. (PX 21; Vol. II, 128-130). This is strong evidence of the fact that but for Dura's infringement, TWM would have realized a sales volume at least equal to the combined sales volume of the two companies.

This Magistrate agrees that the plaintiff has proven the four elements for a claim of lost profits between June 1, 1973 and

May 21, 1981. The elements are: 1) a demand for the Turner invention during this period (PX 10; Vol. II, 88-93); 2) TWM's ability to meet the demand (PX 21; Vol. II, 93-97; Vol. VI, 46); 3) a proven amount of lost profits, given PX 16A (E) and (F), fairly and reasonably allocating and separating the fixed and varable costs and extracting only the fixed costs (Vol. VI, 138-151; Vol. VII, 32-48, 58-60, 73-75, 80-99); and 4) either no acceptable non-infringing alternatives to the Turner invention as shown by PX 4 or satisfaction of the "but for" test (Vol. II, 128-130; PX 21, PX 3A, B, C).

TWM has also shown that its Turner invention units were more profitable than other units it manufactured for each year during the period of claimed loss, 1973 to 1981. (Vol. XVIII, 149-51). As such, TWM is entitled to compensatory damages, with prejudgment interest, of $100.00 per unit on Dura's sales, as well as the amount of plaintiff's reduced selling and its special discounts. *Panduit, supra.* It should be noted that if in any year the royalty amount exceeds the lost profits, the royalty is awarded and visa versa. This is because § 284 of the Patent Act requires the *minimum* damage to be the reasonable royalty.

Regarding the issues of whether there existed between 1977 and 1981 acceptable non-infringing substitutes for the Turner invention and/or satisfaction of the but for test, for purposes of lost profits, the following findings of fact are adopted:

a. While there were several lift axle suspension substitutes for the Turner invention, not one of them had all of the attributes of the Turner invention (PX4, Vol. III, 10-110; Vol. XIX, 79-98; Vol. XXI, 54-57).

b) Most of the other known suspensions, due to their roll-stiffness, were characteristically lifted when the vehicle had to travel in rugged environments, while the Turner invention, inherently roll-flexible, was specifically designed to be left down when in such environments (Vol. XX, 126; Vol. XII, 215-218; Vol. XXI, 118-122);

c) The other substitutes that existed were basically of the same designs that had presented the problems which

Turner had solved; resulting in the validity of the Turner patent, the solving of a long-felt need in the industry, and the immediate commercial success of the Turner invention (PX4, 7A-D, 8A-G; Vol. II, III, IV VanDenberg; law of the case, *TWM* II, III);

d) For those seeking the characteristics of a leaf spring lift suspension, there were only two manufacturers to choose from, Dura and TWM (i.e. the Turner invention) (PX4). All of the others were beam-type suspensions, and this had resulted in a separation of the two types of suspension into overlapping markets (Vol. II, 117; Vol. III, 45-47; Vol. VI, 87-90, 105; Vol. XVII, 30-32);

e) Credible evidence was presented in the form of an independent distributor, William Smith, of R & S Body in Allen, Kentucky, an installer of lift axles, that but for Dura's infringement, TWM would have enjoyed Dura's sales (Vol. V, 109-113). No comparable evidence to the contrary was presented by Dura.

f) Various actions on the part of Dura constitute important evidence of the lack of acceptable non-infringing alternatives throughout the entire infringement period, 1967-1981:

(1) Dura tried, and failed, prior to its copying, to independently develop a lift axle design;

(2) Dura knew that Turner was asserting his patent rights in December of 1966 (PX1A, 285, law of case, *TWM* (I). By this time, Dura had only expended a minimal amount for tooling. (Thorsen deposition). Dura proceeded, in the face of this threat of infringement, to sell its "1400", despite the lawful availability of several designs that Dura now claims are acceptable substitutes (Vol. XIII, 136-138);

(3) Dura proceeded to willfully infringe the Turner patent (law of case);

(4) After introduction of its "1400" and its success was established (PX1A), Dura attempted to supplement its product line with various beam-type designs either asserted as "acceptable" by Dura, or similar in design to those which are asserted as acceptable by Dura (PX4). None were successful, and all were dropped from the product line (Vol. XII, 54; PX8C, 8D, 8F, 8G; V-II, 43-63);

(5) Dura's violation of this court's injunction, rather than introducing an alternative design in May of 1981, despite the availability of several other designs, including the Kulyk design [the patent for which had expired in 1980 and was, therefore, free to be copied lawfully] (PX 28);

(6) Dura's exit from the lift axle suspension business after enforcement of the injunction with the same substitutes available as discussed above (Vol. XII, 55-56);

(7) Dura's advertisements, which stress the value of the unique features of the Turner invention over those substitutes now claimed to be acceptable by Dura (PX5); and

(8) Various in-house and outside statements made by Dura extolling the virtues of the Turner invention and establishing it as a leader in the field and the standard in the industry, over units now asserted by Dura to be acceptable (PX18, p. 2, 7, 12).

Having held as a matter of fact that TWM had to sell its own units at a reduced price of $100.00 per unit, then it is a simple matter of logic that TWM's lost profits also must include $100.00 per unit on every sale it would have made but for Dura's infringement. This is mathematically reflected by multiplying Dura's total units during the lost profit period by $100.00, amounting to 875,200.00. (PX 16A Tab-F).

III.

PREJUDGMENT INTEREST

The plaintiff further seeks prejudgment interest at the prime rate from Dura's infringement in 1967. TWM argues that if Dura had not infringed, TWM would not have had to borrow such a substantial amount of money in order to say in business (DX-P; Vol. VIII, 138; Vol. VI, 43-45; Vol. VII, 102; Vol. XVIII, 77-79, 86-87). The plaintiff further argues that denying prejudgment interest below the prime rate for the full period of infringement would undercompensate TWM, the patent holder, and grant a clear windfall to Dura, the willful infringer, putting the wrongdoer in a better position than a party who had been granted a license.

The law concerning prejudgment interest in a patent case, under 35 U.S.C. § 284, has recently been established by the United States Supreme Court. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, (1983). The Court held that prejudgment interest should be awarded under § 285 absent some justification for withholding such an award.

The court agrees that plaintiff did have to borrow at or above the prime rate for each year of the infringement. However, it would be speculation for this court to determine how much of the money borrowed resulted from defendants' infringement. It is therefore the holding of this Magistrate that TWM is entitled to prejudgment interest given the willful and egregious nature of the infringement in this case but that awarding the prime rate for each year of the infringement period is unjust. Recently, the United States Court of Claims adopted an interest rate figure in cases under 28 U.S.C. § 1498 and is applicable in § 284 cases:

> Very recently in *Pitcairn v. United States*, Ct. Cl., 547 F.2d 1106, No. 50328, decided December 15, 1976, Part V of that opinion, we adopted a series of interest rates in a comparable patent suit under 28 U.S.C. § 1498, the rates to be applied each year, at simple interest, to the sums then owing to the plaintiff (footnote omitted). We hold

> that these rates should be applied (from now on) to just compensation cases, . . . unless and until it is affirmatively demonstrated that under the theory of the *Pitcairn* opinion the rate for the years after 1975 should differ from the 7 1/2% rate set for 1971-1975. *Tektronix, Inc. v. United States*, 552 F.2d 343, 352-353 (Ct. Cl., 1977).

The 7 1/2 percent interest rate is just to both Dura and TWM. Dura has had more than seventeen and a half years the use of the money which it made from its willful infringement of another's patent. This infringement resulted in more than 20 million dollars in sales (PX 16A, Tab-A-1). While Dura's profits cannot be accurately determined due to its inadequate financial records (Vol. VII, 93-94), TWM has presented credible evidence that Dura's profits were substantial during the period (PX 16A, Tab-A; Vol. VII, 49-45; Vol. VIII, 48-58). Yet, Dura has not paid one penny of royalty on the money that it earned from its infringement. Denial of prejudgment interest under such circumstances would openly invite every potential willful infringer to engage in willful acts and, when challenged in court, protract litigation as long as possible. Dura must be charged for the benefit of enjoying the patent over many years while the plaintiff has received nothing.

IV.

ENHANCED DAMAGES

Given the willful infringement and the other egregious behavior of the defendants, an award of increased damages is very appropriate. This Magistrate agrees that the amount of compensatory damages in this record, not the interest, should be trebled, pursuant to 35 U.S.C. § 284.

V.

COMPUTATION OF DAMAGES

Compensatory Damages:		
Reasonable Royalties/ Lost Profits	$6,465,714[3]	
Diminished Sales Price	1,577,200[4]	
Special Discounts	468,682[5]	
Total Compensatory Damages		$ 8,511,596
Trebled		× 3
Subtotal		25,534,788
Prejudgment Interest:		
Reasonable Royalties/ Lost Profits	4,725,023[6]	
Diminished Sales Price	836,171[7]	
Special Discounts	192,514[8]	
Total Prejudgment Interest		5,753,708
TOTAL AWARD		$31,288,496

3. See Appendix 2
4. See Appendix 3
5. See Appendix 4
6. See Appendix 5
7. See Appendix 6
8. See Appendix 7

VI.

CONCLUSION

The foregoing constitutes the report of the special master, submitted to the parties and filed with the Clerk as provided for at F.R.C.P. 53.

MARCIA G. COOKE

Marcia G. Cooke
United States Magistrate
Special Master

APPENDIX 1

INDEX TO VOLUMES OF ACCOUNTING PHASE TRANSCRIPTS

VOL.	I	May 1, 1984 (Tuesday)
VOL.	II	May 2, 1984 (Wednesday)
VOL.	III	May 3, 1984 (Thursday)
VOL.	IV	May 7, 1984 (Monday)
VOL.	V	May 8, 1984 (Tuesday)
VOL.	VI	May 9, 1984 (Wednesday)
VOL.	VII	May 10, 1984 (Thursday)
VOL.	VIII	May 11, 1984 (Friday)
VOL.	IX	May 15, 1984 (Tuesday)
VOL.	X	May 16, 1984 (Wednesday)
VOL.	XI	May 30, 1984 (Wednesday)
VOL.	XII	May 31, 1984 (Thursday)
VOL.	XIII	June 1, 1984 (Friday)
VOL.	XIV	June 4, 1984 (Monday)
VOL.	XV	June 5, 1984 (Tuesday)
VOL.	XVI	June 6, 1984 (Wednesday)
VOL.	XVII	June 7, 1984 (Thursday)
VOL.	XVIII	June 8, 1984 (Friday)
VOL.	XIX	June 11, 1984 (Monday)
VOL.	XX	June 12, 1984 (Tuesday)
VOL.	XXI	June 13, 1984 (Wednesday)
VOL.	XXII	June 14, 1984 (Thursday)
VOL.	XXIII	June 15, 1984 (Friday)

APPENDIX 2

TABULATION OF COMBINED (TOTAL) REASONABLE ROYALTIES/LOST PROFITS

Year	*Type*	*Amount*
1967	royalty	$ 181,350
1968	royalty	265,515
1969	royalty	420,000
1970	royalty	480,000
1971	royalty	450,000
1972	royalty	630,000
1973	royalty	720,000
1974	royalty	720,000
1975	royalty	256,061
1976	lost profit	279,973
1977	lost profit	403,590
1978	lost profit	733,825
1979	lost profit	416,056
1980	royalty	354,940
1981 (5/31)	royalty	154,404
Total		$6,465,714*

* See PX 16A (Exhibits A, F, G); plaintiff's Post-Trial Brief at 1-4, 8-36, 51-63.

APPENDIX 3

TABULATION OF COMBINED (TOTAL) DIMINISHED SALES PRICE

Year	*Amount*
1969	$ 12,500
1970	20,000
1971	28,000
1972	32,500
1973	129,000
1974	199,200
1975	100,400
1976	113,900
1977	183,700
1978	309,800
1979	232,000
1980	142,300
1981 (5/31)	73,900
Total	$1,577,200*

* See PX 16A (Exhibits A & F); plaintiff's Post-Trial Brief at 1-2, 47-51.

APPENDIX 4

TABULATION OF COMBINED (TOTAL)
SPECIAL DISCOUNTS

Year	*Amount*
1969	$ 295
1970	405
1971	706
1972	8,461
1973	22,428
1974	16,524
1975	4,006
1976	19,516
1977	15,106
1978	139,570
1979	105,682
1980	79,602
1981 (5/31)	56,381
Total	$468,682*

* See PX 16A (Exhibits A & F); plaintiff's Post-Trial Brief at 2, 47-51.

APPENDIX 5

COMPUTATION OF INTEREST ON REASONABLE ROYALTIES/LOST PROFITS

YEARS	INTEREST RATE	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	COMBINED TOTAL
Royalties/ Profits		181350	265515	420000	480000	450000	630000	720000	720000	256061	279973	403590	733825	416056	354948	154484	6,465,714
Interest																	
1967	7.5%	6800															
1968	7.5%	13601	9957														
1969	7.5%	13601	19913	15750													
1970	7.5%	13601	19913	31500	18000												
1971	7.5%	13601	19913	31500	36000	16875											
1972	7.5%	13601	19913	31500	36000	33750	23625										
1973	7.5%	13601	19913	31500	36000	33750	47250	27000									
1974	7.5%	13601	19913	31500	36000	33750	47250	54000	27000								
1975	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	9603							
1976	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	19205	10499						
1977	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	19205	20998	15135					
1978	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	19205	20998	30269	27519				
1979	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	19205	20998	30269	55037	15602			
1980	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	19205	20998	30269	55037	31204	13311		
1981	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	19205	20998	30269	55037	31204	26621	5790	
1982	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	19205	20998	30269	55037	31204	26621	11580	
1983	7.5%	13601	19913	31500	36000	33750	47250	54000	54000	19205	20998	30269	55037	31204	26621	11580	
1984 (To 3/31/84)	7.5%	3400	4978	7875	9000	8438	11813	13500	13500	4801	5250	7567	13759	7801	6655	2895	
Total Interest on Royalties/ Profits		227816	313630	464625	495000	430313	555100	580500	526500	168044	162735	204316	316463	148219	99829	31845	4725023

APPENDIX 6

COMPUTATION OF INTEREST ON LOSS INCURRED FROM DIMINISHED SALES PRICE

YEARS	INTEREST RATE	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	COMBINED TOTAL
Reduced Price		12500	20000	28000	32500	129000	199200	100400	113900	183700	309800	232000	142300	73900	1,5777,200
Interest															
1969	7.5%	469													
1970	7.5%	938	750												
1971	7.5%	938	1500	1050											
1972	7.5%	938	1500	2100	1219										
1973	7.5%	938	1500	2100	2438	4838									
1974	7.5%	938	1500	2100	2438	9675	7470								
1975	7.5%	938	1500	2100	2438	9675	14940	3750							
1976	7.5%	938	1500	2100	2438	9675	14940	7530	4272						
1977	7.5%	938	1500	2100	2438	9675	14940	7530	8543	6889					
1978	7.5%	938	1500	2100	2438	9675	14940	7530	8543	13778	11618				
1979	7.5%	938	1500	2100	2438	9675	14940	7530	8543	13778	23235	8700			
1980	7.5%	938	1500	2100	2438	9675	14940	7530	8543	13778	23235	17400	5337		
1981	7.5%	938	1500	2100	2438	9675	14940	7530	8543	13778	23235	17400	10673	2772	
1982	7.5%	938	1500	2100	2438	9675	14940	7530	8543	13778	23235	17400	10673	5543	
1983	7.5%	938	1500	2100	2438	9675	14940	7530	8543	13778	23235	17400	10673	5543	
1984 (To 3/31/84)	7.5%	235	375	525	610	2419	3735	1883	2136	3445	5809	4350	2668	1386	
Total Interest on Reduced Price		13836	20625	26775	28647	104007	145665	65888	66209	93002	133602	82650	40024	15244	836,171

APPENDIX 7

COMPUTATION OF INTEREST ON LOSS INCURRED FROM DISCOUNTS

Years	Interest Rate	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	Combined Total
Discounts		295	405	786	8461	22428	16524	4006	19516	15106	139570	105682	79602	56381	468,682
INTEREST															
1969	7.5%	11													
1970	7.5%	22	15												
1971	7.5%	22	30	27											
1972	7.5%	22	30	53	318										
1973	7.5%	22	30	53	635	841									
1974	7.5%	22	30	53	635	1682	620								
1975	7.5%	22	30	53	635	1682	1239	150							
1976	7.5%	22	30	53	635	1682	1239	300	732						
1977	7.5%	22	30	53	635	1682	1239	300	1464	567					
1978	7.5%	22	30	53	635	1682	1239	300	1464	1133	5234				
1979	7.5%	22	30	53	635	1682	1239	300	1464	1133	10468	3963			
1980	7.5%	22	30	53	635	1682	1239	300	1464	1133	10468	7926	2985		
1981	7.5%	22	30	53	635	1682	1239	300	1464	1133	10468	7926	5978	2115	
1982	7.5%	22	30	53	635	1682	1239	300	1464	1133	10468	7926	5978	4229	
1983	7.5%	22	30	53	635	1682	1239	300	1464	1133	10468	7926	5978	4229	
1984 (To 3/31/84)	7.5%	6	8	13	159	421	310	75	366	283	2617	1982	1493	1057	
Total Interest On Discounts		325	413	676	7462	18082	12081	2625	11346	7648	60191	37649	22388	11630	192,514

Transcript of Oral Adoption of Report of the Special Master by the United States District Court for the Eastern District of Michigan

UNITED STATES OF AMERICA

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

Civil Action

No. 74-72852

TWM MANUFACTURING CO., INC., et al.,
Plaintiffs,

v

DURA CORPORATION and KIDDE, INC.,
Defendants.

RULING OF THE COURT

Detroit, Michigan

Wednesday, January 9, 1985

At about 4:03 p.m.

* * * * *

THE COURT: I want to thank counsel for their thorough and careful consideration of this matter and for the briefs that have been very helpful, as well as oral argument today, which has been very helpful in this matter.

We are here upon the report of the special master, the magistrate, filed October 29, 1984, and objections before the special master made by defendants Dura Corporation and

Kidde. In this matter, I deem to be here under Rule 53(e)(2) of the Federal Rules of Civil Procedure, which provide that:

> "In an action to be tried without a jury the Court shall accept the master's findings of fact unless clearly erroneous."

It further on says:

> "The Court after hearing may adopt the report or may modify it or may reject it in whole or in part or may receive further evidence or may recommit it with instructions."

And as I read that section and as I understand it, I sit in this case as an appellate court would, reviewing findings of fact only if they are clearly erroneous and reviewing the law, of course, as an appellate court would. And I think there is ample authority for that, and I cite just as one Wright and Miller, Section 2614, dealing with the effect of a master's report, which confirms what the plain language of the rule says; namely, that the Court shall accept the findings of fact unless clearly erroneous.

First of all, I have carefully considered everything presented to me and I fail to find any error in the findings of fact of the magistrate. I think the magistrate has done an exemplary job and there is no finding of fact that I can find that is clearly erroneous.

I would add only one thing to the magistrate's report, that relating to the royalty base. I think the proper basis for the decision on the royalty base is the case of *Paper Converting Machine* v *Magna-Graphics*, a 1984 case from the Federal Circuit. I do not have the Federal 2nd citation, but it's 233 USPQ 591. I think that confirms the Plaintiff's position that the wheels and axles are a proper part of the royalty base and the base for determining Plaintiff's lost profits under the "entire market value rule." And I would amend the finding by adding that case to the master's findings.

Other than that, I can find nothing to criticize the master of the court for. I think she has done a very thorough, competent

job. I find no finding to be clearly erroneous nor do I find any errors of law.

And so I will adopt the findings of the master in their entirety, with the one addition that I just made of the one case.

Now, that, of course, means I will accept her determination of treble damages. And I just want to say one word about that because there has been a lot of argument here today about willful infringement, misconduct and so forth.

It has been argued that unless I find some bad faith, I cannot award treble damages. Well, I do not buy that law at all. And the reason I don't is the fact that I ruled specifically on that and the effect of bad faith in my opinion in this case on May 21st, 1981, which opinion was affirmed by the Sixth Circuit Court of Appeals. And I said:

> "In this case I have found willful infringement. I have certainly found misconduct as a matter of fact and law by Dura Corporation and its agents. However, I am not prepared to say that I can go as far as to say that there has been bad faith action, that Dura Corporation has acted in such bad faith as to authorize attorneys' fees, so I do not think the standard of 35 USC 284 as set forth in *Deyerle* v *Wright Manufacturing Company* has been met. This does not mean, however, that I cannot consider enhanced damages because as I read the law, the "standard for enhanced damages up to treble damages is not as stringent a standard as the standard which is set forth for the granting of actual attorney fees."

And that was affirmed by the Sixth Circuit and therefore clearly is the law in this case.

Therefore, for the reasons given, I adopt the findings of the master as modified and will order judgment in this case against the defendants in the amount of $31,288,496.

Thank you all very much.

* * * *

Order of Court of Appeals for the Federal Circuit Denying Petition for Rehearing

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

Appeal Nos. 85-2153
85-2237
85-2273

TWM MANUFACTURING CO., INC.,

Appellee/Cross-Appellants,

v.

DURA CORP. and KIDDE, INC.,

Appellants/Cross-Appellees.

Before MARKEY, *Chief Judge*, NICHOLS, *Senior Circuit Judge*, and SMITH, *Circuit Judge*.

ORDER

A petition for rehearing having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, denied.

FOR THE COURT

By: DIANE FRYE
Chief Deputy Clerk

Francis X. Gindhart, Clerk

5/22/86
Date

cc: Mr. Francis T. Carr
Mr. Geoffrey R. Myers